

# Nation's Business<sup>®</sup>

**Pinkerton's Tom Wathen:  
Inexperience Paid Off**

**The Lure Of Leasing  
Car And Truck Fleets**

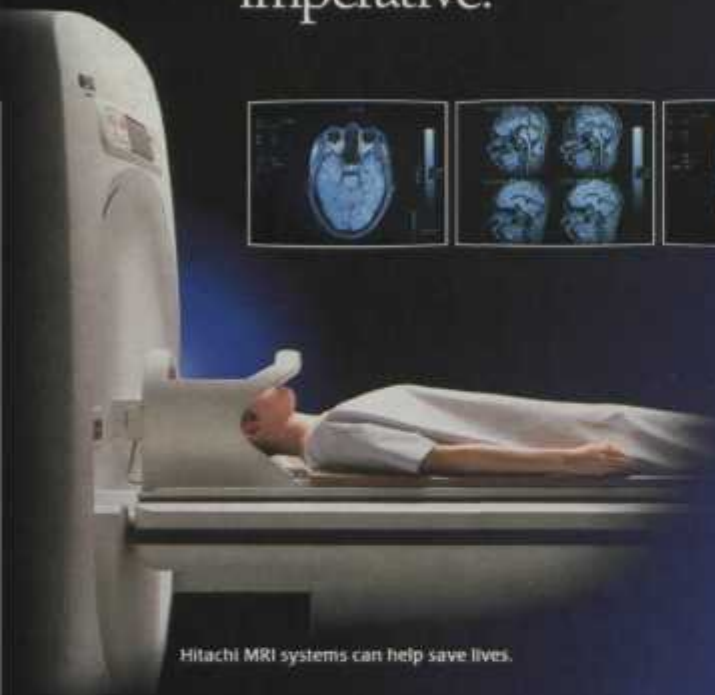
**Should You Consider  
Going Corporate?**

# TOO HIGH

**Rate increases and declining service—the Postal Service's usual response to higher costs—could overwhelm many small businesses.**



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PHOTO: © LINDA SUE SCOTT

**Postal rate hikes threaten small firms; earlier boosts made John Haas shrink ads. Cover Story, Page 18.**



PHOTO: © GEORGE OLSON

**Conversion to an S corporation reduced tax rates for the Bethels' company. Taxes, Page 46.**



PHOTO: T. MICHAEL KEER

**Vans, trucks, and automobiles can be less costly for your firm if they're leased. Special Report, Page 54.**

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the U.S. Chamber of Commerce  
Washington, D.C.

## Editor's Note

### Time For A Look At The Postal Service



PHOTO: JANE SHREY

The stars come out when Rita Tateel books them to appear at parades and other events. Making It, Page 13.

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We publish an inflation index that lets you translate money amounts of yesteryear into current values. The most recent version, which appears on Page 12, came in handy when we were developing our cover story on the U.S. Postal Service's latest call for higher rates. When the present U.S. Postal Service was estab-



PHOTO: T. MICHAEL KEZA

Postal Rate Commission member John Crutcher, right, was among the many key sources interviewed by Nation's Business Senior Editor Albert G. Holzinger for this month's cover story.

lished in 1970, a first-class stamp cost 6 cents. The inflation factor of 3.36 for that year means that stamp should now cost 20 cents. But it's 25 cents, and the Postal Service wants to make it 30 cents.

This month's cover story provides insights on why the mail service's revenue needs are running so far ahead of inflation and why business opposition to rate increases is starting to boil over.

The Postal Service is a big operation, no doubt about it. It handled 161 billion pieces of mail last year, more than 440 million a day. It has 750,000 employees. And it is a vital part of our society. You'll see in our report the comment by a Direct Marketing Association official that "a vibrant, healthy Postal Service is of great importance to American business, cultural, and social life."

Not even its most ardent partisans would so describe our current mail service. Our report, beginning on Page 18, examines the problems facing this governmental behemoth, and it points out the route the Postal Service must take if it is to fulfill its responsibilities.

As the proposal for a \$7.2-billion rate increase begins moving through the long implementation process, this article provides the background you need to put that proposal in the larger perspective of the policies that have created a continuing need for massive rate increases.

*Robert T. Gray*

Robert T. Gray  
Editor



# Letters

## Workers' Comp Costs

Your March cover story, "Fighting The High Cost of Workers' Comp," says that costs "are accelerating because injuries and illnesses are on the rise." It should have read that costs are accelerating because fraud is on the rise.

Our members who investigate workers' compensation claims not only report questionable claims but also find that objective evidence submitted against claimants during the hearing process is often ignored in favor of subjective doctors' reports.

Common sense takes a back seat to an attitude that business must pay regardless of how outrageous a claim may be.

Joseph E. Driscoll  
President  
Ohio Association of  
Private Detective Agencies Inc.  
Columbus, Ohio

As a provider of rehabilitative services, I read with interest your article on the rising cost of workers' compensation insurance. Perhaps the best defense against skyrocketing workers' compensation premiums is a good offense. Many workers' compensation claims are due to the hiring of employees who are unable to perform the tasks required or failure to teach employees proper body mechanics for their jobs.

A licensed physical therapist trained in industrial medicine can evaluate new employees' physical limitations and capabilities and provide training on-site. In many states, workers' compensation insurance carriers offer premium reductions to companies involved in such programs.

Bill Redus  
Vice President  
Dynamark Inc.  
Columbus, Miss.

Many businesses have begun to realize that it pays many times over to have registered nurses on-site to monitor on-the-job injuries. It has been proven that an employee is more likely to return to work, recover from his or her injury, and cost the company less money if there is a person following the injury closely.

I found it interesting that you suggested getting injured employees back to work as a way of keeping your costs down, but managers are usually not well-versed in how to accomplish that task. A person with a medical background, such as a registered nurse, has

an excellent working knowledge of how to deal with doctors and knows what tests are necessary.

Jennifer Barker, R.N.  
Employee Health Service  
Craig Hospital  
Englewood, Colo.

In regard to your article on workers' compensation, please consider the following: I own and operate an anthracite



COVER ILLUSTRATION: SAM WARD

coal processing plant and am now paying \$33.80 per \$100 payroll. I operated an anthracite deep mine for 12 years but was forced out of business because of a rate which is now \$91.55 per \$100.

Ronald F. Klinger  
Pine Creek Coal Co.  
Spring Glen, Pa.

No wonder we're "fighting the high cost of workers' comp," with illustrations like that on the March cover. The man shown is overextending his reach—besides being on the top platform of a ladder, which nearly everyone knows is not to be used as a step. We all must be on the lookout for possible accidents and avoid all of them.

Robin Parker  
West Springfield, Mass.

[Editor's Note: We considered an illustration depicting an accident about to happen as appropriate to the subject.]

The listing of state disability benefits ... shows Iowa as having the highest maximum weekly benefit as a percent of the state's average weekly wage.

Iowa does have a high maximum benefit. However, a comparison of maximums really means nothing.

What is important is the cost to employers of maintaining the system.

The Grant Thornton Manufacturing Climate Study Index (of workers' compensation insurance levels per \$100 of payroll) consistently has shown Iowa's insurance levels well below the national average for 1984-88, and in prior years Iowa has nearly always ranked among the 10 lowest by this cost measurement.

I am concerned that ... an unsophisticated expansion planner looking to cut a 50-state field to five or six candidates will "paper cut" Iowa without ever leaving the ivory tower to determine the real story.

D.G. Hauser  
Senior Vice President  
Iowa Association of Business  
& Industry  
Des Moines, Iowa

In your story on workers' compensation, you list maximum workers' compensation benefits for the 50 states. The source of this column is the U.S. Department of Labor. However, in 1988 in the state of Michigan, the maximum weekly workers' compensation rate was not \$409.00 per week, but \$397.00. The maximum weekly rate in Michigan is not based on 92 percent of the state's average weekly wage, but is based on 90 percent of a state average weekly wage of \$440.77. The \$409.00 rate quoted is the maximum rate for 1989, based on a state average weekly wage of \$454.15.

Edward J. Gallagher II  
Freid, Gallagher & Associates, P.C.  
Saginaw, Mich.

[Editor's Note: The source line for the benefits chart should have said the figures were based on laws in effect as of July 1, 1989.]

## A Timely Report

You had a first-rate article in your February cover story, "A New Energy Crisis?" It was especially timely in light of reports that U.S. oil imports are now over half of domestic use. I hope some of the people likely to read the article pay attention.

Bruce L. Brager  
Arlington, Va.

I wonder if you realize the irony of having a cover story on a possible new energy crisis in the same issue as a call



from the Highway Users Federation for still more road building [Dateline: Washington].

We use about 50 percent of our oil consumption for motor vehicles, about the same amount as our current imports. We also find we cannot pave our way out of gridlock. Add air pollution—primarily from autos today—and one can't help but wonder at the powerful people who would build still more roads for more automobiles.

Either we should start giving adequate support to all forms of transportation—we need to rebuild our badly treated rail system—or we should get the government out of the road, airport, and waterway business to let real free enterprise go to work.

*David P. Lubic  
Martinsburg, W. Va.*

Until America's government and businesses understand that energy efficiency and renewable resources make good business sense, we will continue to waste tens of thousands of megawatts each year and needlessly export billions of dollars to foreign countries.

America's energy policy is no policy at all.

*George Humphrey  
Council Member  
City of Austin, Texas*

## Health Care For The Elderly

The Where I Stand poll [February] asks whether general tax revenues should be used to finance catastrophic health care for the elderly. I dissent from those who propose such an unwise and unnecessary solution.

Sen. Daniel P. Moynihan, D-N.Y., the self-appointed guard dog of the Social Security strongbox, estimates that system's reserves at more than \$50 billion. In my opinion, \$50-billion-plus is more than sufficient to address the health needs of our elderly citizens for the foreseeable future, if it is administered with reasonable prudence.

*Connell J. Trimmer, M.D.  
Alexandria, Va.*

## Postal Services

In "Tell The IRS If You've Moved" [It's Your Money, March], you encourage people to notify the IRS and their state tax agency of their new address. I would wager that few people would take the time to do this.

Instead, people should be encouraged to fill out a change-of-address card with the U.S. Postal Service. If they ask, their mail carrier can provide them with the card, saving them a trip to the post office.

After a card is filled out, the Postal

Service will forward a person's mail for the next 12 months. After 12 months, the Postal Service will provide the sender with the mover's new address for the next six months.

It's just part of the service.

*Steve Gibson  
York, Neb.*

## Postal Products

Following up on January's "Cost Cuts Are In The Mail," there's another aspect to the rising costs of the U.S. mail. Postmaster General Anthony Frank has opened a nationwide chain of gift shops offering T-shirts, lapel pins, stuffed animals, posters, place mats, and coffee mugs. Who knows what's next? Before Frank starts offering fast food, shouldn't Congress tell the U.S. Postal Service to stick to stamps and delivering the mail?

Whatever happened to private enterprise?

*Lachlan P. MacDonald  
Padre Productions  
Arroyo Grande, Calif.*

## What Paperwork Reduction?

Re pending renewal of the Paperwork Reduction Act [Small-Business Update, February]. Every hospital and nursing home in the U.S. must file reports with Medicare and Medicaid offices. These reports comprise about 150 pages of detailed accounting information—in triplicate, of course.

The last time the Paperwork Reduction Act concerned itself with this reporting requirement, the government added 26 pages to the burden—once again, in triplicate.

*Lee E. Addleman  
Government Programs  
Consultants Inc.  
Sacramento, Calif.*

## Kudos

Recently I became a new subscriber after discovering your excellent publication. I since have been constantly impressed with the vital, usable information packed into each issue. Incidentally, I work in-flight for a major international airline and am constantly recommending *Nation's Business*.

*Kim P. Regets  
Streamwood, Ill.*

Send letters to Editor, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.

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## ENTREPRENEUR'S NOTEBOOK

# Breaking Into The Big Leagues

By Robb E. Dalton



**B**roadcasting is both a powerful, world-shaping force and a small, close-knit community. Only the three largest networks, their affiliated local stations, and a few other players—particularly the major cable-TV networks—play on this important stage.

To gain entry to this exclusive club typically requires years of patience and persistence working in the broadcasting ranks. To market to television stations a product designed to become a part of their image requires gaining their trust and confidence.

In 1986, after a dozen years of paying my dues—in sales, then as general manager of KAKE-TV in Wichita, Kan., and later as manager of the KakeLand television stations in Kansas—I decided to try a new idea in marketing for television. I set out to provide to stations a package of preproduced, consumer-oriented, news features. Each package would include background research on the subject, filmed comments from nationally recognized experts, graphics materials, and other TV-production elements that stations could use to complement their own reporters' local interviews.

Stations would obtain local sponsors for each package, which also would come with printed materials for distribution throughout the community. The materials would carry sponsors' names, would focus on the subject, and would encourage viewers to put pencil to paper in some manner—in other words, to participate in the series at home.

The idea would not get off the ground, however, if I could not gain the trust and confidence so often central to doing business in television. In the TV industry, equipment, services, and products—including the shows you see—typically are bought from the giant motion-picture and electronics companies. Was I naive to think I could start a small business and enter this world? While developing my promotion, I decided to find out. I talked by phone with friends and associates in broadcasting. I attended major television conventions and spent many long days walking convention-hall floors "bumping" into people, picking their brains for ideas, finding out what their stations needed, and how my promotion might fill those needs.

After doing research and networking with colleagues, I decided that convincing one TV station at a time to try my product would be a long, slow process. It appeared my

only hope for a faster marketing success would be to gain a high level of awareness for my TV promotion. And as most small-business owners know, overnight awareness usually occurs only through a large advertising budget (which few of us have) or significant trade-press coverage (which few of us get).

I seemed to be out of luck on both counts, until I began to understand the obvious: My research, networking, and conversations had made me keenly aware of trends in the broadcasting industry. In fact, several stations were calling me—not about my project, but in search of useful information, such as budget-cutting ideas, marketing projects, and community-involvement campaigns. In effect, I had become an informal idea exchange. So I surveyed 200 broadcast executives and their clients, and I began to catalog moneymaking and money-saving ideas. The result was a 30-page report, "Ten Trends in Local Television

Sales." Stations from the most prestigious national groups began calling for the survey. I was invited to make presentations to broadcasting organizations. Press coverage suddenly materialized.

In the 30 months since my company has been producing news-feature packages, we have received two Emmy Awards for syndicated news series, produced two series based on my "Lifeplanning" principles and methods (the series were sold to 138 stations and sponsored by more than 500 companies), and supplied promotional materials to more than 15 million people. We are now producing our third series—on major concerns among teenagers.

I realize now that, yes, we little guys can play in the big leagues. To do so, however, we must understand

that being an entrepreneur means blending the best of the tried-and-true business approaches with an element of experimentation. We must be willing to take calculated risks, service neglected areas, and be persistent.

Here are some marketing thoughts that I drew from my experience and that could help other start-ups:

- Sell the benefits of your product, not just the "bells and whistles."
- Study your potential buyer's needs as intensely as your own.
- Develop your product's distinguishing characteristics.
- Listen to and be prepared for the buyer's objections.
- Be a resource to clients.
- Don't forget the tiebreakers: tireless service and value-added elements.

There is an old, unattributed saying that goes: "Do not follow where the path may lead. Go instead where there is no path, and leave a trail." For start-up businesses, charting a new trail may be the only path to success. **■**

*We little guys can play in the big leagues. To do so, however, we must understand that being an entrepreneur means blending the best of the tried-and-true business approaches with an element of experimentation.*

Robb E. Dalton is president and founder of Pinnacle Communications and author of the book *Lifeplanning. He lives and works in Scottsdale, Ariz.*

Readers are invited to contribute to *Entrepreneur's Notebook*. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.



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# Small-Business Update

*Early intelligence on resources to help you take advantage of the changing business climate.*

## INTERNATIONAL TRADE

### Exporting Will Sustain Economic Growth

Exporting will give most U.S. manufacturing industries the boost they need to sustain economic growth for a record eighth year, according to the Commerce Department's latest *U.S. Industrial Outlook*. J. Michael Farren, undersecretary of commerce for international trade, says exporting will

The Commerce Department predicts 2-percent growth on average in 1990 for the 194 manufacturing industries it surveys, which account for 75 percent of domestic production. The strongest industries are forecast to be medical and dental equipment, up 8.2 percent; computers, up 4.3 percent; and industrial and analytical instruments, up 4.2 percent. Commerce projects key losers to be steel-mill products, down 4.1 per-



PHOTO: © DON HAMMERMAN—FOTO, INC.

**Medical-equipment manufacturing** will be one of the industries whose exporting efforts will help sustain economic growth, according to a federal forecast.

play a "crucial role" in maintaining the health of many industries. "U.S. firms are accepting the challenge of global competition. They are... pursuing foreign markets vigorously, in some instances for the first time."

### A Rising Interest In Doing Business Abroad

Surveys conducted five years apart by the U.S. Chamber of Commerce suggest a dramatic increase in the number of American firms doing business abroad or interested in trying to do so. From 1984 to 1989, the number of international activities sponsored by local chambers has doubled. Such programs

and services generally mirror the needs and interests of local chambers' member businesses.

You can obtain a copy of the 580-page *U.S. Industrial Outlook* for \$27 by calling (703) 487-4650.

Local chambers' most widespread trade activities include providing the customs certificates that certify products as American in origin, furnishing information on the benefits of trade, and referring firms to individuals or organizations that can meet specific trade-related needs.

## ENVIRONMENT

### Deadlines Postponed For Fuel-Tank Insurance

Small petroleum marketers have been granted a one-year extension of the various deadlines for obtaining federally mandated insurance to pay environmental clean-up costs resulting from any leaks in their underground storage tanks.

The insurance, which was to have been in force this year, is required by the U.S. Environmental Protection Agency. The deadlines for obtaining the coverage were postponed until next year after marketers and petroleum-industry representatives told the Congress and the EPA that such coverage is difficult to find and often is unaffordable for small firms.

Marketers owning from 13 to 99 tanks now have until April 26, 1991, to secure such "financial responsibility" insurance. For marketers with up to 12 tanks, the new deadline is Oct. 26, 1991; that date also is the deadline for local governments, for marketers with fewer than 100 tanks at one site, and for nonmarketers with tangible net worth under \$20 million. Nonmarketers typically are companies that have tanks just for fueling their own fleets.

Small marketers must have \$1 million worth of coverage per leak. Firms that will be hard-hit by the costs of such insurance include independent gasoline stations and convenience stores that sell gasoline.

### Clean-Air Amendments Could Cost Jobs

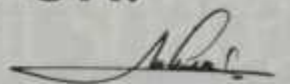
Small businesses would encounter large regulatory costs in complying with proposed Clean Air Act amendments now before Congress, and these costs would translate into fewer jobs, a new study concludes.

The study, commissioned by the industry-based Clean Air Working Group and conducted by the CONSAD Research Corp., in Pittsburgh, estimates that small businesses in the 101 areas where ozone-reduction targets have not been attained—areas that include 417 U.S. counties—may pay an average of \$15,000 each to obtain permits to keep up with the Clean Air Act requirements. The Bush administration's pro-





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—Mario Andretti



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\* most models

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posal would validate these permits for five years.

For a small business, the cost of installing equipment to continually monitor as many as four substances could range from \$50,000 to \$250,000.

"There is no doubt," the study says,

"that fewer small businesses will be started." Fewer start-ups would adversely affect employment and would slow growth, according to the study. It reports that at least 200,000 jobs would be "quickly" lost in the U.S. if current clean-air proposals pass Congress.

## New Environmental Tax Hits Many Companies

Manufacturers and importers of home electronics products and other goods made with chlorofluorocarbons are now subject to a tax based on the amount of such chemicals in the products.

Chlorofluorocarbons, which have been found to deplete Earth's protective ozone layer, are used by many manufacturers of videocassette recorders, television sets, calculators, cameras, answering machines, computers,

conditioners, foam mattresses, dish washers, lawn mowers, automobiles, and aircraft.

The new tax, which is contained in the Revenue Reconciliation Act of 1989, is applied to U.S. manufacturers using chlorofluorocarbons since last Jan. 1, and it also is applied to direct importers—including certain retailers—of goods made with the chemicals.

The amount of tax will vary according to the type of chlorofluorocarbons used. In general, businesses this year will pay an excise tax of \$1.37 per



Home electronics products such as TVs and VCRs are now subject to a tax—paid by business—based on the chlorofluorocarbons used in making them.

and other electronic goods, says Thomas P. Ochenschlager, a Washington-based partner with the accounting firm of Grant Thornton.

The chemicals also are used in making products as diverse as toasters, air

pound of the chemical used, which would come to about 4 cents on a TV, \$4 on a computer, and possibly more on other products. The tax rises to \$1.67 per pound in 1992 and to \$2.65 per pound in 1993.

from television producer Norman Lear, and its 18-member board includes Lear; Warren Buffett, chairman, Berkshire Hathaway Inc.; business author and educator Peter F. Drucker; Karen N. Horn, chairman, Bank One, Cleveland; and Robert C. Maynard, president of the Oakland Tribune Inc., in Oakland, Calif.

The trust, which expects to make five awards, will consider entrepreneurs or

employees "who demonstrate exceptional social vision by creating new products, services, or forms of corporate organization that address important social needs." Individuals or firms showing exceptional courage or integrity in the face of risk and adversity may be considered also.

The trust, said its president, Kirk O. Hanson, is searching for "particular acts, decisions, programs, or initiatives that demonstrate the best of business responsibility."

The deadline for nominations is June 1. For details and a nomination form, contact Hanson at the Business Enterprise Trust, 204 Junipero Serra Blvd., Stanford, Calif. 94305; (415) 321-5100.

## WOMEN IN BUSINESS

### Up To \$50,000 Could Be Yours

Women business owners can obtain \$5,000 to \$50,000 in venture capital under a program of the National Association for Female Executives (NAFE). An applicant must be a member of NAFE to qualify. Only businesses with plans judged "appropriate" investment opportunities by NAFE's selection committee will receive funding. The deadline for submitting business plans is Sept. 30. For information, call (212) 645-0770.

## NB TIPS

### Nondiscrimination Tests

✓ *How To Test Your Benefit Plans For Discrimination*, a new pamphlet from the U.S. Chamber of Commerce, can help employers determine if benefit plans meet current nondiscrimination rules, which are simpler than the Section 89 rules that were repealed, but still are complex. The pamphlet also covers requirements for self-insured health plans, group term life insurance, and dependent-care plans.

For a copy, call Publications Fulfillment, 1-800-638-6582 (in Maryland: 1-800-352-1450); request order No. USCC-2013. Orders up to 99 copies are free; each copy above that number is 10 cents.

### Crime And Fraud

✓ *How To Protect Your Business*, a new handbook from the Council of Better Business Bureaus, deals with problems such as credit-card fraud, hot checks, shoplifting, bankruptcy, computer crime, insurance fraud, and employee theft. Single copies are available for \$4.95, plus \$2 shipping, from the Council of Better Business Bureaus Inc., Dept. 023, Washington, D.C. 20042-0023; (703) 276-0100. Quantity discounts are available. NB

## AWARDS

### Recognition For Business Responsibility

Nominations are being sought for the first Business Enterprise Awards for Courage, Integrity and Social Vision in Business. The awards are sponsored by the Business Enterprise Trust, founded last year by 18 leaders in business, academia, labor, and the media.

The trust is backed by \$1 million



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-Barbara Champney



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# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

## TRANSPORTATION

### Congress Now Goes To Bat On Transportation Policy

Responsibility for developing major new policies for air and highway travel has shifted to Congress, at least for the moment. The consensus among transportation experts in Washington is that the Bush administration's current proposals for a new national transportation policy are not aggressive enough and that the principal initiative will come from Congress.

William D. Kelleher, manager of community-resources issues for the U.S. Chamber of Commerce, said the administration's plan "lists many of the hard questions facing the transportation community, but it fails to give the tough answers we need."

A key source of disagreement centers on revenues collected from highway and airway users for trust funds committed to improvements in those modes of transportation. The administration's deficit-control strategy includes limits on expenditures from those trust funds. Transportation groups have urged that trust-fund revenues be spent as originally intended.

Kelleher said that federal officials continue "to sacrifice transportation



PHOTO: ©MIKE MITCHELL—FOCUS INC.

**Air-travel systems' improvements are paid for with trust funds.**

priorities to cover up the budget deficit by abusing transportation user fees."

Congressional committees are now developing transportation policies that will include extension of the trust funds and, possibly, standards for spending revenues. The federal law on financing air-travel facilities expires Sept. 30. Debate on renewal of the highway/mass-transit law begins in 1991.

## TAXES

### Another Democratic Test Of Bush's Anti-Tax Pledge

Employers in 32 states, Puerto Rico, and the District of Columbia would pay nearly \$8 billion in additional unemployment-insurance taxes over the next five years under legislation pending in Congress. The added funds would finance extension of jobless benefits in areas with high unemployment.

But any such legislation enacted by Congress would run head-on into President Bush's stand against tax increases. The bill's opponents are assailing it as a tax increase, while its Democratic sponsors argue that it is not a new tax but an increase in an existing levy.

At present, eligible individuals can collect 26 weeks of jobless benefits through state programs. They can collect an additional 13 weeks if their respective states meet criteria based on the statewide rate for insured unem-

ployment and the trend in that rate.

Under the pending bill, there would be a lower trigger for the extended benefits. In addition, the bill would introduce a new concept making workers within high-unemployment areas of a state eligible even if the state's overall jobless rate was not high enough to activate the program.

To finance the expansion, the bill would raise the wage base, now \$7,000, for the Federal Unemployment Tax, which only employers pay. The base would go to \$8,000 in 1991, \$9,000 in 1992, and \$10,000 in 1993. It would be indexed thereafter to wage growth.

The wage base is already above \$10,000 or is indexed in Alaska, Colorado, Hawaii, Idaho, Iowa, Minnesota, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Oregon, Rhode Island, Utah, Virgin Islands, Washington, Wisconsin, and Wyoming. All other states would be affected by the bill in some degree.

## BUSINESS SURVEY

### New Chamber Services Give Business Input On Issues

The U.S. Chamber of Commerce is introducing new telephone services designed to let business people register their views on Washington issues. The number, start-up date, and cost of the first/additional minutes of telephone calls appear in order:

**The Washington Dial**, a daily update on key business issues. 1-900-420-6001; May 1; \$1.00/50 cents.

**The Business Ballot**, a survey of business attitudes. Each Chamber member company receives a ballot. 1-900-420-2004; May 1; 50 cents.

**Opinion Line**, a poll of viewers of the weekly Chamber television program "It's Your Business." 1-900-420-6002; May 12 and 13; \$1.00/50 cents. Check local television listings for broadcast dates and times.

The Chamber will utilize responses in shaping its policies.

## INFLATION INDEX

### Measuring The Relative Value Of Past And Present Dollars

Economist Martin Lefkowitz of the National Chamber Foundation has issued his annual index for calculating the effects of inflation. The latest index, updated to 1990, enables you to determine the purchasing power of today's dollar relative to that of any year to 1965. Multiplying the index number for a given year against dollar amounts of sales, salaries, property costs, or any other base shows the number of dollars needed today to equal the purchasing power of the earlier year's dollars.

These are the index numbers:

1965	4.13	1978	2.00
1966	4.02	1979	1.79
1967	3.90	1980	1.58
1968	3.74	1981	1.43
1969	3.55	1982	1.35
1970	3.36	1983	1.31
1971	3.21	1984	1.25
1972	3.11	1985	1.21
1973	2.93	1986	1.19
1974	2.64	1987	1.15
1975	2.42	1988	1.10
1976	2.29	1989	1.05
1977	2.15	1990	1.00



# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*



## Puttin' On The Glitz

Only in Los Angeles, surely, could there be a company that you can call when you need a celebrity in a hurry.

"A lot of times," says Rita Tateel, "we get emergency requests. Because the entertainment industry is so big here, invariably what we hear is that so-and-so knows somebody's brother, who's somebody's uncle, who's somebody's dentist. They all try to get to the celebrities directly, because they think they have an in, and it doesn't work. Then they call me, two weeks before the event, and say, 'Help!'"

Tateel, 39, owns a 2-year-old company

**Hollywood glitter** is Rita Tateel's stock in trade. She works with such stars as, from left, Kirk Cameron, Richard Dean Anderson, Corbin Bernsen, and James Stewart.

called Celebrity Source. She is a matchmaker: Corporations and nonprofit organizations pay her to arrange personal appearances by celebrities at events of many kinds—parades, track meets, golf tournaments, the Kentucky Derby—all over the country.

She and three employees work in her home. It's on a side street west of downtown Hollywood, blocks away from Sunset Boulevard, but she has a Sunset Boulevard mailing address. Tateel explains: "A Sunset Boulevard address for a business like mine seems to

impress people outside Los Angeles." Those people expect a business dealing in glitz to have glitzy quarters itself—not a couple of workaday rooms stocked with phones and computers. But, as Tateel says, "the commute is fabulous" (hardly a minor consideration in L.A.), and she needs the computers a lot more than she needs a glossy front.

She has built up a database on more than 3,000 celebrities—mainly actors and musicians—and she puts it to work when a request comes in: "If, for example, we want to find a black celebrity who is from the Midwest, is over the age of 55, plays tennis, and is anti-smoking, the computer will do that."

Her information comes largely from the celebrities themselves; many of them have filled out a five-page questionnaire asking, among other things,



## MAKING IT

the sports they play or watch, their favorite charities, the kinds of products they'd like to endorse, and how much they must be paid for a speech.

Tateel's fees start at \$2,000—that's what she charges a nonprofit organization that needs only one celebrity—and rise from there, depending on the nature of the event and the number of celebrities needed. For the Hollywood Christmas parade and the Los Angeles Marathon, she rounds up dozens.

Tateel was not born to glamour. Her parents were Polish survivors of Nazi concentration camps, and she spent her first two years on the family's chicken ranch east of Los Angeles. She worked for nonprofit organizations for 17 years, starting as a camp counselor when she was 16 and winding up as education director for the Jewish Federation of Los Angeles.

**S**he also headed the federation's speakers bureau, and she started meeting celebrities that way. In 1985, when a friend asked her to become his partner in a new company devoted to lining up celebrity appearances for charities, "it just fit." Three years later, she left to start Celebrity Source.

Her business is booming; she handled "25 to 30" events her first year, she says, and in her second year the total "at least doubled." Although a few other Los Angeles companies do roughly the same kind of work, Tateel says that actual competition is slight, since each firm more or less specializes in certain areas. Her strong suit is "cause-related marketing," which typically involves corporate sponsorship of a celebrity-studded athletic event, with the proceeds going to charity.

Despite what Tateel describes as a growing interest in adding celebrities to events of all kinds—"everyone loves to mix and mingle with stars"—the nature of the work may prevent a lot of new firms from invading the field. Not only does Tateel have to talk stars into taking part in events, but she also has to oversee a lot of details after they say yes: "Everything from making sure that the right kind of mineral water is in its place to making sure that a dressing room is set up exactly right."

It may be no accident that success in this particular field has come to a woman who has a bachelor's degree in child development and a master's in social work. "The bigger the celebrities are," she says, "the less likely they are to know how to do certain things themselves. There's a lot of hand-holding that takes place in my business, and I don't know that a lot of people have the temperament and a tolerance for that."

—Michael Barrier

## Cajun Crunchies

**N**early six years ago, when Ron Zappe's oil-field-equipment business was sliding downhill along with the rest of Louisiana's oil-based economy, his wife, Anne, brought home a bag of kettle-fried potato chips made at a chippery called Groff's, in Brookshire, Texas.

"I had never tasted chips as thick and crunchy as Groff's," Zappe remembers, "and I got the idea that a spicy, kettle-fried chip would appeal to Louisiana tastes."

Zappe started making plans. "I contacted Tim Kennedy at Groff's and pestered him until he taught me everything I needed to know about the potato-chip business," says Zappe. Fortified with a crash course in potato-chipping, Zappe developed spice mixes and started producing Zapp's Cajun Craw-tators, along with more conventional chips, in a vacant car dealership in Gramercy, La. (When he gave his name to the chips, he dropped the "e" for the sake of "simplicity," he says.)

But Zappe soon learned that making potato chips was only half of what he needed to know about running a successful snack-food operation. "Getting a product onto the grocer's shelf is the toughest part of this business," he says. "Over 12,000 new items are introduced in the nation's groceries every year. Small companies like Zapp's must compete with national brands and pay expensive slot allowances to get into large chain groceries."

Exposure in local mom and pop stores, along with press coverage of his new enterprise, gave Zappe access to larger markets. "We are so grateful that the independent grocers took a chance on us," says Zappe. "When their customers started talking about 'getting Zapped' with our Cajun Craw-tators, the press picked up on it. They considered our company a 'good news' story in an otherwise dismal economy."

Zappe won't divulge current figures, but 1988 sales were \$5 million, and he says sales have "improved" since then.

Zapp's now extends a helping hand to other Louisiana businesses. Almost everything it uses in making potato chips, from the kettles to the shipping boxes, is a Louisiana product. The exception: the potatoes. But, Zappe says, "we are working with state agencies to develop a Louisiana-grown chipping potato." (Four flavors of tortilla chips, a nacho cheese dip, and Zapp's Cajun Picante Sauce are also made out of state.)

When the football season gears up, Louisiana football fans pop open eye-

catching bags of Zapp's chips. New Orleans Saints fans munch Zapp's Who Dat? chips, and Louisiana State University Tigers supporters dip into Zapp's Tiger Tators. "In April 1988, Tiger Tator chips became the first food item licensed by LSU," Zappe says. What he calls a "sizeable percentage" of his revenues from Tiger Tators goes to the university.

Over 70 percent of Zapp's chips are on grocery shelves within 72 hours of shipment. The company's delivery market includes all of Louisiana, the Houston area, central and southern Mississippi, and parts of Alabama and Florida, but orders come into Zapp's 1-800-HOT-CHIP number from all over the U.S.

Zappe enjoys the creative process that produces new flavors and packages. "That's the fun part of the job," he says. "We mix and match, try out and throw away."

"The Little Chippery in Gramercy," as Zapp's has nicknamed itself, started out with four managers and seven production workers. Now, more than 100 employees turn out seven varieties of chips in bag sizes ranging from 1½ ounces to 3 pounds. All of his Gramercy production employees were trained with funds provided under the federal Job Training Partnership Act, Zappe says. "The arrangement was a real help to us when we started up," he adds, "and continues to give us loyal, productive employees."

—Mary Fonseca



"Getting Zapped" is what happens when you eat Ron Zappe's spicy chips.



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## MAKING IT

## Marketing The Future

**F**or businesses of all kinds, nothing could be more valuable than the ability to see into the future. How vigorous will the economy be, a year, two years, five years from now? How will consumer tastes change?

The future usually doesn't arrive all in a rush; it arrives in bits and pieces instead. The trick is to see, before most other people do, how those bits and pieces are going to fit together. The

Hey, a filmmaker and scholar, works out of Atlanta. The other two—Carol L. Colman and Peter D. Moore—came from Wall Street.

The list of clients has always been short, too. Currently, about 50 buy Inferential Focus' services. Money-management firms have always made up the bulk of the clients—they're looking for help in deciding where to invest—and they pay \$24,000 a year. Corporations, says Colman, 44, "are much more demanding," and so they pay a retainer that starts at \$75,000.

Essentially, Inferential Focus' clients hire its five principals to read, to think,

was rising, they were being squeezed by increases in property taxes, automobile insurance, health-care costs, and adjustable-rate mortgages (ARMs). As a result, consumers were cutting back their buying plans even though they felt confident about the economy.

This squeeze, the report said, "represents an unusual recession threat not perceived by traditional economic indicators. . . . Traditional recession remedies . . . do not directly address the driving forces of the squeeze. They will not lower insurance premiums or property taxes."

ARM rates have gone down since then, but, still, there may well be something to that analysis, as anyone can testify who has gotten a raise one week and a property-tax bill that gobbled it up the next. Inferential Focus can point to some notably shrewd forecasts, as when it said, correctly, that oil prices would go down when everyone else was saying that they would go up.

As the firm readily admits, it has come up with some clunkers, too, like a prediction that coal prices would rise because the Japanese were investing in coal conversion.

In any event, Inferential Focus presents itself to high-ranking managers not as a human Ouija board but as a stimulus to more productive thinking about the future. "What we're doing is trying to open up, not close down," says Moore, 46. "Before you rush to the answer, maybe we should look at the questions first."

That may sound a little fuzzy, but clients say it really isn't. Michael J. Hines, vice president of marketing for Fidelity Investments, the largest mutual-fund company, says, "They bring a lot of discipline to what can be very unruly and difficult to grasp."

The current economic climate might seem inhospitable to firms like Inferential Focus. This is, after all, a time when many investors and managers are preoccupied with short-term results; looking far ahead is out of favor. But "in a strange way," Colman says, the pressure for ever-improving quarterly results "is forcing managers to think more long-term."

Moore explains: "There's less and less leverage available operating on a quarter-to-quarter basis. The leverage is really being able to see an opportunity, or a risk, that is maybe a little bit further away, and doing something earlier."

In other words, managers are realizing that the cost of being early—a quarterly dip in profits, perhaps—may be small, compared with the alternative. As Colman says: "If you're late, it can be very costly."

—Michael Barrier



PHOTO: ©ARNOLD ADLER

The "mind map" they're holding is a tool that Charles Hess, Carol Colman, and Peter Moore of Inferential Focus use to scan the future.

business people who can do that—who can see the shape of the future in what may seem like random scraps of information—will have a leg up on everyone else.

The farther you can see into the future, the better; but, also, the greater the risk that what you see will not really be there. For that reason, perhaps, the prognostication industry is crowded with companies that try to stay just a step or two ahead of what will soon be common currency on TV and in print.

Only a few firms have staked a claim on the outer reaches of the future, by trying to spot the earliest signs of the trends that others will later identify and measure. The most prominent of those early-warning firms, Manhattan-based Inferential Focus, marks its 10th anniversary this year.

Inferential Focus has only five principals. Two of them, Charles W. Hess and Joseph W. Kelly Jr., have been with the firm from the beginning. Kenneth R.

and to share those thoughts with the clients, through 40 or so slender publications a year, telephone conversations, and face-to-face meetings.

The five principals read about 300 publications—local newspapers, trade papers, technical magazines—and look for what they call "anomalies." Those are items that somehow depart from the expected and that, when set beside other such items, may reveal the pattern of the future. Detecting such anomalies and inferring their meaning, the Inferential Focus people say, requires more than analysis of the number-crunching kind practiced by corporate planners; what is needed instead is a mixture of analysis and intuition. They try to give visible form to that mixture by drawing "mind maps" that show seemingly disparate facts grouped around common themes.

Last summer, for example, Inferential Focus told its clients that even though consumers' disposable income





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## COVER STORY

# Postal Rates: The Growing Threat

By Albert G. Holzinger

**W**hen John Haas opened a small furniture store in a San Francisco suburb in 1976, he assumed that the U.S. mail would offer him the most cost-effective means of advertising.

In the early years of his Suburbia Furniture shop, Haas mailed 75,000 copies of an eight-page color circular three times a month to those he considered his most likely customers—nearby residents of Daly City.

That strategy was successful. Sales totaled about \$350,000 in 1976 and grew steadily to about \$1 million in 1985.

In 1985, however, postal rates went up sharply, and Haas had no choice but to cut his mailing list by one-third. Rates increased substantially again in 1988; Haas reduced mailings to twice a month, and the eight-page circular retreated to a single oversized postcard bearing ad messages. Cutting back on advertising, the lifeline to his customers, has "killed sales and my bottom line," says Haas, who adds that his limited budget left him no other choice.

Haas is typical of countless small-business owners who are being overwhelmed by increases in mailing costs.

The concern of business people about postal-rate trends has been intensified by the U.S. Postal Service's plan to raise mail rates yet again, this time by an average of 19 percent for all classes of mail. The plan, which, depending on mail volume, could cost individuals and business-mail users a total of as much as \$8 billion, is officially subject to review by the Postal Rate Commission.

However, as the result of a federal court decision, the five-member commission has no effective authority to block increases. "We're just a bunch of eunuchs in that respect," admits John W. Crutcher, a postal-rate commissioner since 1982. "All we can do is put on the green eye shades and move the beans around the bingo card until we

Joan C. Szabo, Roger Thompson, Meg Whittemore, and Bradford A. McKee contributed to this report.



PHOTO: LINDA BUE SCOTT

**Rising postage costs forced furniture-store owner John Haas to substitute smaller postcard ads for larger circulars like the one in his left hand.**

determine how to divide [the rate increase proposed by the Postal Board of Governors] equitably among mailers."

The Postal Service's latest proposed increase, which will become effective in February unless Congress takes the unprecedented step of intervening, will have a devastating impact on business generally and on small business in particular.

Haas of Suburbia Furniture, who says he was both terrified and indignant upon learning of the proposal, pro-

jects that if the rate hike takes effect, he will be down to a single mailing a month to perhaps one-third of his original list of 75,000 names.

The Direct Marketing Association (DMA) notes that more than 86 percent of the 14,500 mail-order companies in this country have sales under \$1 million a year, and the profit margins of many of them "are smaller than the additional postage they may have to pay" under the proposed increase. "Postal rates to these companies are literally a life-and-

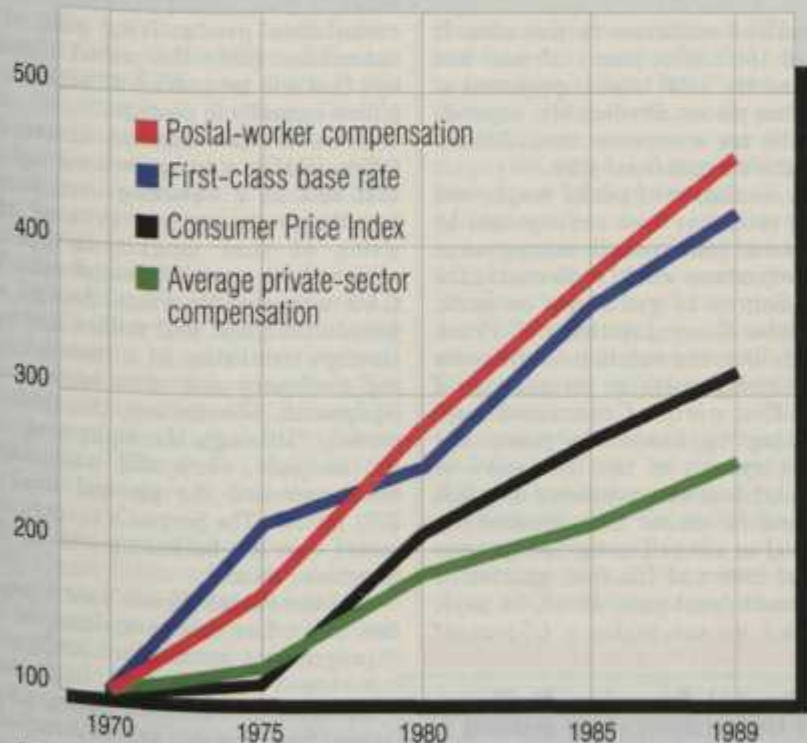


*The Postal Service—unless Congress steps in—will impose its largest rate hike ever, lifting mail costs to record heights and threatening the sales and the bottom lines of small firms still reeling from earlier increases.*



## Pay And Rate Increases

(Indexed; 1970 = 100)



SOURCE: Martin Lefkowitz / National Chamber Foundation

death issue," Richard A. Barton, the DMA's senior vice president for government affairs, recently told the House of Representatives' committee on the Postal Service.

Another major voice of concern about the upward climb of postal rates is that of the Mailers Council; it represents larger companies, which employ nearly 1 million workers, plus trade associations representing an additional 18,000 firms, including many small ones. That membership accounts for 75 percent of all mail volume.

Richard McLaughlin, president and chief operating officer of the Reader's Digest Association and a council board

member, told the House committee hearing: "Postal costs do not only affect bloodless bottom lines; they affect jobs, competitiveness, and the general state of the economy."

The extent to which postal-rate hikes correspondingly increase the cost of doing business is evident in two mail-intensive industries. One is banking: Each year, the nation's banks mail more than 5 billion pieces of first-class mail and receive more than 3 billion pieces. The other is direct mail: More than 90 million individuals made a direct-marketing purchase last year as a result of receiving a catalog, letter, package insert, card pack, or other ad-

vertisement through the mail.

Catalog merchandisers point out that they will be hit particularly hard. "If you market goods and services by catalog," says Gene A. Del Polito, executive director of the Third Class Mail Association, "your percentage increase will be about 33 percent. So the impact of the increase will be substantial."

Even mail-service firms will be adversely impacted. Lee Epstein, president of Mailmen Inc., a medium-sized New York City direct-mail firm, says the proposed postal increase will cut sharply into the business of his company and others like it: "The mail-processing shops ... have all expanded with equipment and people in recent years because [business] was healthy. Well, it's gotten a little weak lately [because high interest rates have slowed down the economy] ... and [a big postal] increase will make it much worse."

The increase now proposed would add \$6.2 billion to postal spending by businesses of all kinds. And it would cost the average U.S. household about \$88 in direct outlays for their own mail and in costs passed through to them as a result of higher prices for magazine subscriptions and mail-order goods, according to Martin Lefkowitz, an economist with the National Chamber Foundation, a research organization affiliated with the U.S. Chamber of Commerce.

McLaughlin of the Reader's Digest Association spotlights the impact of postal-rate increases beyond the mailers themselves by noting that about half of the approximately \$18 million that the last rate increase cost his company was passed on to customers. "The latest proposed increase will cost about the same," he reports.

Although rate increases levied by the Postal Service about every three years since it was created by Congress in 1970 have far exceeded increases in the inflation rate (see the chart on this page), they have been absorbed by mail-



## COVER STORY



ers after only minor grumbling. However, the Postal Service's latest proposal seems finally to have driven the business-mail public beyond the limits of its patience.

"A nearly 20-percent postal-rate hike is unreasonable and unjustified," says Tracey Schreft, associate manager of community resources for the U.S. Chamber of Commerce, which represents small and large business interests in Washington, D.C. "If the proposed rate hike is allowed to take effect, postal costs will have risen 46 percent faster than the rate of inflation between April 3, 1988, the date of the last increase, and early next year when the new rates would become effective. The unchecked practice of raising revenue by increasing rates must stop." The Chamber has mounted an all-out campaign to rally opposition to the increase. It has activated its local-action network to bring pressure on the Postal Board of Governors, on the Postal Rate Commission, and on Congress. Elements of the campaign include:

- Educating business mailers about the increase, through use of the Chamber's broadcast and print media.
- Undertaking a broad-based public-education campaign.
- Activating its network of grassroots political activists.
- Drafting a statement for submission during Postal Rate Commission hearings on the proposed increase.

Opposition to the proposed rate hike voiced by the Chamber, the Magazine Publishers of America, and other business groups stems primarily from the Postal Service's runaway labor costs and its declining service.

The Postal Service has more than 750,000 employees, and labor costs represent 83 percent of its expenditures. The average salary and benefits of postal workers now total more than \$40,000 a year, nearly double the total of average private-sector employees, according to the Chamber Foundation's Lefkowitz. Much of this differential, says Lefkowitz, is attributable to the generous benefits package negotiated over the past 20 years by the postal unions. Direct benefits for postal workers total \$5 an hour, compared with \$2.15 in the private sector, he says.

Postal employment levels have been difficult to control because workers are virtually guaranteed lifetime employment under their labor agreements.

The Postal Service points out that



PHOTO: T. MICHAEL KEZA

*The Postal Service's history of negotiating with unions is the saddest business of all, and I have no reason in the world for optimism [about upcoming negotiations].*

Postal Rate Commissioner  
John W. Crutcher

its workload continues to rise also: It handled 161 billion pieces of mail last year, and the 1990 total is projected at 166 billion pieces. Predictably, expenditures also are enormous: about \$38 billion in the current fiscal year.

Each escalation of postal wages and mailing rates has been accompanied by assurances from postal management that the increase would soon enable the Postal Service to get a grip on costs. Postmaster General Anthony M. Frank contends that the solution to the problem of rising costs is installation of \$11.7 billion worth of automated mail-processing machines. He points out that deployment of the first wave of these machines was completed only last May, and he claims that productivity increased as a result in the last quarter of fiscal 1989 and the first quarter of the current fiscal year. In all, he says, "we think we can realize a 4.7-percent

cumulative productivity gain from automation [over the period 1989-95], and that will save about \$3 billion to \$4 billion annually in postage."

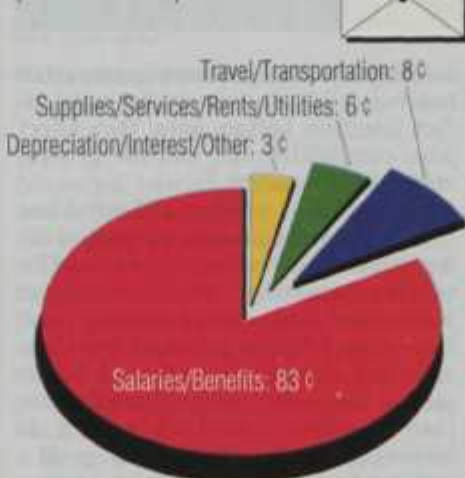
However, the General Accounting Office (GAO), a congressional agency that acts as a watchdog over federal spending, seems unconvinced that gains of that magnitude can be achieved by postal management. The GAO notes that the Postal Service projected savings of \$748 million last year through installation of automated sorting machinery and other labor-saving equipment. Nonetheless, the GAO reported, "although the equipment was put in place, clerk and mail-handler costs exceeded the planned level by \$761 million. The Service's savings estimates were not backed up with actions to achieve them."

And the Postal Service's own inspection unit offers this perspective on the progress of automation: At 22 sites reviewed by inspectors, only about one-third of work-hour savings forecast from the equipment was being attained. One reason for this shortfall was diversion of mail from automated equipment to less-efficient machines or manual processing so that employees would be kept busy.

Many mail users share an apprehension about the Service's ability—in light of union-imposed work rules—to gain significant labor savings through automation. "The Postal Service is making some enormous assumptions about the success of its mail-automation program," says the Third Class Mail Association's Del Polito.

Despite its past lack of success, the Postal Service is offering deep discounts to encourage mailers to more completely address and sort their mail before delivering it to a

### The Postal Service Dollar (Where It Goes)



SOURCE: U.S. Postal Service





post office, he says. For example, discounts will be provided to those who affix nine-digit ZIP codes or who put bar codes on their envelopes; the use of these codes enables the new Postal Service machines to process the mail more quickly. "They are betting the farm on their automation program," says Del Polito, "and if they are not able to capture the savings from that automation program or if they are not able to win the support of mailers to that automation program, they may be giving away much more revenue than would be justified."

Productivity has always been a sore point with the Postal Service. "The Service's cumulative productivity increase in the 1980s has been zero," said Robert Cohen, director of the Office of Technical Analysis and Planning of the Postal Rate Commission in testimony during 1988 rate-increase hearings. Cohen says the Service has had only a "4.5-percent cumulative increase in productivity since [postal] reorganization occurred in the 1970s."

Postal management created a problem for itself a few years back when it negotiated away the right to employ large numbers of part-time workers. That concession is hampering the effort to automate, says Donald Kummerfeld, president of the Magazine Publishers of America. "They need flexibility to hire part-time people, and they don't have it."

Even some members of the Postal Rate Commission are now charging publicly that the Postal Service is so bloated and unmanageable that Congress should consider amending the 20-year-old law that gives the Service monopoly power over most mail delivery. "We got into this mess politically, and we may have to get out of it politically," says Crutcher, the postal-rate commissioner. He warns, however, that Congress won't intervene "unless even more people back home ... rise up in holy anger and tell their members, 'Enough is enough.'"

Congress' reluctance to second-guess the Postal Service stems from the fact that lawmakers felt they were getting rid of an intractable and time-consuming problem when they decided 20 years ago that they could no longer micro-manage details of a postal operation undergoing explosive growth. But signs of congressional unhappiness are emerging in the aftermath of the latest rate-increase proposal.

Rep. Richard K. Armey, R-Texas, recently said to his colleagues in the



PHOTO: T. MICHAEL KEE

*The Postal Service is making some enormous assumptions about the success of its mail-automation program.*

*Gene A. Del Polito  
of the Third Class Mail Association*

House of Representatives: "This government-run monopoly that is badly mismanaged with labor costs going through the roof wants to pass a \$7-billion bill or more on to the American taxpayers without doing a thing to reform the way they operate. ... This is outrageous."

Armey asked the House to adopt the formal position that, inasmuch as the Service "has reduced the quality and level of its services, ... [the proposed rate increase] is unwarranted, and the Postal Service should reduce its deficit by cutting costs."

Frank, who has been postmaster general for just over two years, believes that the mandate proposed by Armey can be achieved. "I'm really starting to see some progress" in the area of cost control, he says. "But remember, this thing is a battleship in an estuary. You

can't turn it around on a dime."

The question is, can business mailers afford to wait for Frank to steer his vessel full circle?

**A** strategic plan unveiled recently by Postmaster General Frank calls for reducing inflation in postal costs to two points below the Consumer Price Index and keeping it there through 1995. An important indicator of whether he can achieve this cost-control goal will be the outcome of this year's negotiations with the Postal Service's four powerful unions. Although Frank says he is committed to negotiating a labor agreement that will enable him to fulfill the strategic plan, he already has told the unions that there will be no requests from the Postal Service for wage givebacks during negotiating sessions that begin in Au-

## The Rewards Of Service

U.S. Postal Service employees, who are unionized, are well-paid: an average of \$15 an hour in salary and \$5 an hour in benefits. Also, because management possesses limited authority under its collective-bargaining agreements to use part-time workers at times of peak mail volume, postal workers earn lots of overtime pay. In all, postal employees typically earn over \$40,000 a year.

But that's not all. Postal workers' collective-bargaining agreements provide protections and benefits that most other private-sector workers dare not even dream of. Following are a few examples from the Postal Service's

1987-90 joint agreement with the American Postal Workers Union and the National Association of Letter Carriers:

- Employees hired before Sept. 15, 1978, or hired after that date and employed at least six years are protected against involuntary layoffs and force reductions. "It is the intent of this provision to provide security to each such employee during his or her work lifetime," the agreement says.

- Employees will be furnished uniforms. In addition, employees will be provided an annual clothing allowance of \$229. Further, workers will be reimbursed for footwear, "provided it meets Postal Service footwear specifications."

- Most "Official Disciplinary Letters of Warning" were purged from the files of employees "on a one-time basis" on July 21, 1987.



## COVER STORY



gust. All four contracts expire Nov. 20.

That concession in advance on wage givebacks and the call for a massive rate increase even before the start of negotiations have raised serious questions among Postal Service critics as to its commitment to significant cuts in labor costs.

Some observers are optimistic that the postmaster general will hold his own in negotiations. "I think Tony Frank has a decent chance of putting a lid on the escalation of costs through ... negotiation of new and more flexible work rules so he can use more part-time workers," says Richard Barton, the Direct Marketing Association's senior vice president. "He is dealing from desperation. He has to have a shot at it ... or the Postal Service is in trouble."

Postal-rate commissioner Crutcher is skeptical, however: "The Postal Service's history of negotiating with unions is the saddest business of all, and I have no reason in the world for optimism that Tony Frank will do any better." He says Frank, a former bank executive, is new to postal bargaining, while Vincent R. Sombrotto and Morris Biller, presidents of the National Association of Letter Carriers and the American Postal Workers Union, respectively, "come out of the very tough Manhattan union environment. I think they are going to have Tony Frank on their plate for breakfast."

As concern over labor-cost trends mounts in anticipation of the new round of negotiations, so does that over the quality of service the postal organization provides.

The Postal Service's proposal to "re-align" the delivery standards for first-class mail seems to rankle business mailers almost as much as the Service's rate-hike proposal. Under the delivery-standards proposal, some first-class mail currently delivered overnight will be delivered in two days; some two-day mail will take three days to deliver.

Postmaster General Frank says that though the proposal has sparked "a lot of panic, particularly among remittance mailers, it appears that only about 5 percent of mail will be affected." And some mail currently delivered in two days will shift to overnight mail under the proposal, he says.

The U.S. Chamber's Schreft doesn't see it that way: "The Service's new plan amounts to one of the greatest intentional mail slowdowns in postal history. In the 1700s, Postmaster General Benjamin Franklin set a two-day standard for mail traveling from Philadelphia to

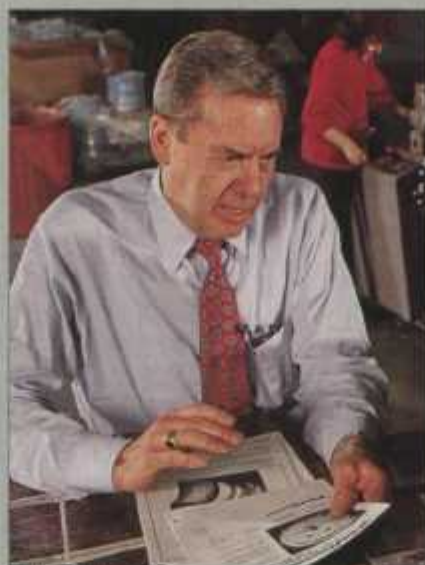


PHOTO: CALAN DORR

*Well, [business has] gotten a little weak lately ... and [a big postal] increase will make it much worse.*

*Lee Epstein,  
president of Mailmen Inc.*

New York City. With more than \$1 billion spent on automation already, standards could be lower soon than they were more than 200 years ago. Mail service that gets worse as it gets more expensive should not be accepted."

The DMA's Barton told the House post-office committee that studies by his and other organizations indicate that "the Postal Service has a problem

with nondelivery of properly addressed third-class mail." He noted a recent test showing that 4.9 percent of catalogs in a test mailing were not delivered. Commented Barton: "A 4.9-percent nondelivery factor represents an economic loss to catalog companies ranging in the hundreds of millions of dollars through lost postage, production costs of the catalog, and sales which will nev-

## Impact On Business Of Some Proposed Postal-Rate Changes



	Current (In \$)	Proposed (In \$)
<b>Small-business bills</b> (First class, no presorting)	.25	.30
<b>Department-store bills</b> (First class, five-digit ZIP presorting)	.21	.26
<b>Utility bills</b> (First class, five-digit ZIP prebarcoded)	.20	.24
<b>Monthly periodicals</b> (Second class, 1 pound)	.297	.374
<b>Saturation local advertisements</b> (Third class, 3 ounces, carrier route walk sequence)	.101	.96
<b>Local department-store advertisements</b> (Third class, 2 ounces, five-digit ZIP presorting)	.132	.158
<b>Catalogs</b> (Third class, 8 ounces, five-digit ZIP presorting)	.271	.331
<b>C.O.D., \$40 value</b>	3.00	3.25
<b>Legal signature</b> (Certified mail, return receipt)	1.75	1.90

Source: U.S. Postal Service





er be made. It represents an economic loss to the Postal Service as well, since completed orders generate a considerable amount of new first-, third-, and fourth-class mail."

Barton also told the House committee that inconsistent delivery was as great a concern as nondelivery. "All of us have in the past year received a growing number of complaints and comments about mail that has been delivered after [or long before] dates of sales, pieces which seem to have taken months to deliver, solicitations which have been 'lost' in trailers parked in the corner of a lot and forgotten, and other examples which appear to be on the rise."

Noting the Postal Service plan to extend some delivery deadlines, the American Bankers Association testified that consumers face up to \$1 billion a year in lost earnings or added borrowing costs for each day that mail is delayed in bank operations that process payments from one company to another.

One notion no one seems to dispute is that recent rate increases in combina-



PHOTO © PAUL SERO-STUBBS

*The Postal Service has a problem with nondelivery of properly addressed third-class mail, [resulting in losses to catalog companies] in the hundreds of millions of dollars.*

*Richard A. Barton of the Direct Marketing Association*

tion with service problems are fueling moves toward private-sector delivery mechanisms. The alternatives now include facsimile machines, convenient 800 and 900 numbers for long-distance telephoning, private parcel and overnight-delivery services, shopping at home via cable television and computer, newspaper inserts, and messengers.

The pending rate increase "will give

us much greater incentive than we have had in the past to explore and participate in private delivery," says the Magazine Publishers' Kummerfeld. "We believe that with this increase, private delivery has become more attractive."

Time Warner Inc. is experimenting with a subsidiary, Publisher's Express, to deliver magazines. "We're trying to beat postal rates and get single-home

## Machines And Hands That Make The Mail Go Through

The Postal Service is counting on automation to cut its costs. The automation scheme at the Merrifield General Mail Facility, in Merrifield, Va., provides a quick scan of the U.S. Postal Service's mixed bag of technology. Some of Merrifield's advances are state-of-the-art electronics. Other parts of the vast system are stubbornly state-of-the-past.

In the 400,000-square-foot facility, about 2,000 postal employees cull, cancel, sort, and stack 5 million pieces of mail coming in each night from the region's 130 post offices in 3,861 square miles of northern Virginia.

The letters come off the trucks and are separated by size. Fat, oblong envelopes and 8-by-10-inch envelopes fall aside in the culling area, swept off the conveyor belts by selective cylindrical rollers that allow only letter-sized pieces to pass underneath.

After the mail is broken into size groups, the various echelons of automation—and their utility and futility—come into play.

The choicest pieces of mail—small,

slender, and with typewritten addresses—enter the most highly automated processing. They pass through the optical character reader (OCR). Merrifield has three OCRs, costing \$590,000 each. These machines can read up to four lines of typed or printed address on 35,000 pieces of mail an hour.

Once the OCR reads an envelope's address, its ink jet sprays a bar code on the lower right side of the envelope's front; the bar code specifies the exact address. The envelope then is read by one of eight \$153,000 bar-code sorters that send the envelope marching upright down a thin conveyor strip, and the machine's electronic memory causes the envelope to be derailed into its proper sorting bin—one of 100 marked by ZIP code.

Mail that cannot be read by an OCR goes back about 30 technological years to a mechanized sorting system. Like court reporters at a trial, 12 clerks sit at small keyboards as a pivoting pneumatic arm whips 1,700 pieces of mail an hour in front of each them. Faced with

a letter, a clerk taps a sequence of keys to assign its destination, and the mail whizzes off into an old letter-sorting machine—an assembly of belts, ramps, and cubby holes—and lands according to ZIP code and a carrier's route.

If a piece of mail is not electronically readable, or if it is too bulky to go through either the electronic or the mechanized sorting system, it moves to a system that Benjamin Franklin set up, the pigeon-hole. The irregular pieces of mail—swollen little parcels strapped shut with stretched tape—keep the Postal Service partly in the 1700s. By hand, clerks take stacks of mail and sort them into little boxes, again, to be ordered for the letter carriers.

Automation, especially the OCR technology, is a godsend—"a wild system"—says Henry Cleffi, a postal official at Merrifield. But sometimes automation can't cope, such as during the December holidays, when the center some days must sort 3 million handwritten greeting cards—additional volume that can't be sorted by OCRs—a gigantic task for eyes and hands.

Whatever the Postal Service's technological advances, some traditions might endure.

—Bradford A. McKee



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# An Optimistic Captain At The Postal Helm

Postmaster General Anthony M. Frank is the captain of a foundering ship, and he knows it.

The U.S. Postal Service is in the midst of a "crisis," Frank said during a recent interview. If the Postal Service cannot bring its costs under control and therefore is forced to propose another rate increase anywhere near the 19 percent now pending, he says, the postal monopoly may be sunk by Congress.

Nonetheless, Frank says he is "more optimistic today about the Postal Service than I've been since I came here." An unflagging sense of optimism and the ability to laugh about himself easily

are just two reasons why Tony Frank may be capable of steering the giant Postal Service—it has more employees than the U.S. Navy has sailors—on the course of fiscal responsibility.

Another is his business background. Prior to becoming postmaster general on March 1, 1988, Frank was chairman of the board and chief executive officer of First Nationwide Bank, a Ford Motor Co. subsidiary that is the second-largest consumer banking operation in America.

In keeping with his business background—Frank received his bachelor's and MBA degrees from Dartmouth College—the postmaster general has formulated a comprehensive, long-range plan for turning the service around. "Over the last three years, postal costs rose 20 percent in an economy in which inflation was 14 percent. That's totally unacceptable to the people who pay the bills and to me," says Frank. Thus, the goal of his so-called strategic plan is keeping postal costs between now and 1995 rising at two percentage points below inflation.

"What I have to work with [to reduce costs] are productivity, wage rates, and revenues," Frank says. His goal is to increase productivity about 1 percent

annually through 1995. "That would be about 2 cents we wouldn't have to raise postal rates by," he says. Most of this projected productivity gain would come from automating mail-sorting work currently done by hand. "We'll be seeking to make more changes in the next five years than we've made in the last 200," Frank says.

To succeed, Frank admits, he will need the cooperation of his unions, whose members will have to operate the new equipment at peak efficiency, and also of business mailers, who will have to do much more preparation of mail before they hand it over to the post office.

Also needed, says Frank, is "labor restraint. This restraint doesn't have to come all in wages; it also can come in benefits and work-rule flexibility." Finally, Frank says, he needs to unearth sources of revenue other than postal rates. "We have some competitive products," he claims, "Express Mail, International Express Mail, Priority Mail, and so on." However, it's debatable how competitive these products really are. For example, the Postal Service retains only about 4 percent of parcel

delivery; private carriers have captured the rest.

The Postal Service is selling Postal Service souvenirs and memorabilia in some post offices, but even some postmasters oppose this as unfair competition with taxpaying small businesses. One postmaster in Colorado, who also operates a small country store, says, "Small business doesn't mind the competition... but the U.S. Postal Service is not fair competition."

But despite the criticism and the skepticism he faces almost daily, Frank remains confident of his ability to patch up the holes in the sinking Postal Service: "I asked for this job, I'm enjoying it, and I'm going to get it done."

—Albert G. Holzinger



PHOTO: ©BRIAN CRAKE

Postmaster General Anthony M. Frank foresees Postal Service changes.

## COVER STORY



service going," says its president, Howard Rosen. "Right now we're handling three ZIP codes in the northern suburbs of Atlanta." The small experiment could grow rapidly, because the Postal Service monopoly does not extend to second-class (magazine delivery) or third-class service (catalogs and advertising circulars). So, says Kummerfeld, such delivery services as Publisher's Express for magazines could include catalogs and other advertising.

No one knows at what price point second- and third-class alternatives will be widely viable. It has already happened with parcel post: The Postal Service carries only about 4 percent of packages now; the rest goes to United Parcel Service and other private carriers.

"I'm concerned," Postmaster General Frank says of the alternative systems. "I've said since my first day here that... two more increases of the magnitude of the one proposed... would make it feasible to have private delivery and put us in a downward spiral."

Says Norma Pace, an economist and consultant to several leading corporations as well as a postal governor: "We have a situation in our economy where everyone has to start looking at costs critically, and postal costs are getting to be very visible ones. Once they get that visible, businesses will start doing something about them."

**W**hile competition will intensify in the form of alternative delivery systems, major mailers are not by any means pressing for total privatization of the mail service. "A vibrant, healthy Postal Service is of great importance to American business, cultural, and social life," the DMA's Barton says.

At the same time, there is a consensus among many major users and their representative organizations that the Postal Service cannot survive its historical inclination to match open-ended cost escalation with open-ended revenue demands.

As postal management prepares to face a new round of union demands and to implement a record-high rate increase, it would do well to pay close attention to the business advice summed up by the U.S. Chamber's Schreft: "There is no future for an organization whose business strategy calls for being the highest-cost/lowest-quality provider of any service." **NE**



To order reprints of this article, see Page 75.



## LEADERSHIP

# Tom Wathen's Security Blanket

By Michael Barrier



**B**ack in 1963, Thomas W. Wathen was security director for a Los Angeles toy manufacturer. He had been there only six months when, he says, "my boss and I had a really serious falling out." Around that time, a little uniformed-guard firm offered him the job of running that company. Wathen said to himself, "I don't want to be in the guard business"—but he wanted to stay in his old job even less.

So he accepted the offer from California Plant Protection, even though, he says now, he had no inkling of how he would do the job. As a security director, he had hired other companies to provide guards, but he didn't know how those businesses were run.

"The best thing that ever happened to me," he says, "was that I had absolutely no experience in the guard business. I had no idea how to run one. But I had been a customer. And having been a customer, I ran the business the only way I could possibly know how to run it, and that's the way the customer would want it to be operated. That gave me a hell of an edge, philosophically."

Just how much of an edge? One measure: Wathen now runs—and owns 60 percent of—the largest security firm in the world, Pinkerton's Inc., which has over \$600 million in annual revenues and 40,000 employees.

Pinkerton's is also the oldest such firm in the world. It traces its lineage back to 1850, when a Scottish immigrant named Allan Pinkerton went into business as a detective in Chicago.

Throughout the last half of the 19th century, Pinkerton men (and women—the first female detective worked for Allan Pinkerton, and was buried beside him) often served as the only representatives of the law in America's wilder reaches. "The Pinkertons," as they were known, also won labor's undying enmity, by infiltrating infant union movements and breaking strikes.

Most famously, the Pinkertons pursued outlaws like the Younger brothers, Jesse and Frank James, and Butch Cassidy and the Sundance Kid. In the film based on the exploits of the latter two desperadoes, Paul Newman says repeatedly, "Who are those guys?" as he stares in wonder at a handful of tenacious pursuers. Those human bull-



PHOTO © MARK RICHARDS—EPA

**Wathen—seen here in the security control room at NBC studios in Burbank, Calif.—bought Pinkerton's in 1988 and gave its name to his own company.**

dogs were, in life as on celluloid, Pinkerton men.

Tom Wathen cherishes that colorful past; Pinkerton memorabilia—photos, pamphlets, wanted posters, guns—fill glass-topped wooden cases in a large room just outside his office. Close your eyes while Wathen talks about the Pinkertons of the last century, and the Hollywood connection seems very strong indeed: Wathen's voice, colored by his youth in Indiana, is a ringer for the late Henry Fonda's. But open your eyes, and you see not a Hollywood cowboy, but a ruddy, strapping 60-year-old who would clearly, were he in a security officer's uniform, have everything firmly under control.

For all of Wathen's enthusiasm for his company's past, the current Pinkerton's is far more his creation than Allan Pinkerton's. Investigative work of the kind that won Pinkerton's its reputation accounts now for less than 2 percent of its revenues; more than 98 percent comes from providing guards. What is now called "Pinkerton's" is really a transmuted version of California Plant Protection, the little company that hired Tom Wathen 27 years ago.

Wathen bought CPP in 1964. By 1987 he had built it into a company with offices in 38 states and around \$250 million in annual revenues. One of his competitors then was Pinkerton's, which had been owned by American Brands since 1982. Pinkerton's, in trying to expand into new markets, had started losing money on revenues much larger than CPP's.

In January 1988, Wathen bought Pinkerton's from American Brands, taking on more than \$100 million in debt to do it. He closed Pinkerton's Manhattan headquarters and began running his suddenly much larger company from CPP's headquarters on an industrial street in the Van Nuys section of Los Angeles.

CPP was strictly a guard company, but Pinkerton's had shifted heavily into that business, too. The two companies had offices in many of the same cities, and Wathen saved money quickly by consolidating operations and reducing the total staff by almost one-third.

The acquisition appealed to Wathen, though, for reasons that could not be found in the numbers. As soon as the deal was closed, CPP shed its name and





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\* 15-page memory on FAX1010L.



## LEADERSHIP

became Pinkerton's instead. It billed itself as "CPP/Pinkerton" for the first couple of years, but now the CPP half of the name has been interred.

Changing the name "was like changing the name of your firstborn son," Wathen says. The new name was, however, the most important element in the transaction. "We were buying history," Wathen says. "We were buying name recognition." The Pinkerton name on Wathen's company is like a seal attesting to pre-eminence in his field.

Wathen's ownership of CPP could easily have led in a very different direction, however—to a dead end.

realize it. I was very poorly represented; even a rookie attorney should have told me, 'Don't buy the company, buy the assets.' But I didn't do that. I got stuck with a lot of bills I didn't know anything about."

The most fearsome creditor of all—the Internal Revenue Service—showed up soon after Wathen bought CPP, and presented him with a large bill. "I said, 'No, no, not me, I just bought the company 10 days ago. You want the former owners.' They said, 'Did you buy the stock of the company?' I said, 'Oh, sure.' They said, 'Well, you owe the money.' " That was a costly mistake for

a gun, and so entry into the industry was easy. By the same token, a security company that could persuade customers that it really was providing something different—and better—could achieve rapid growth.

That was where Wathen's experience as a customer was so helpful. "I didn't realize what I was doing," he says. "I didn't realize I was differentiating." He approached one of his first potential customers by, in effect, looking at the job from the customer's point of view. "I went to the customer and said, 'You've got multiple buildings, you're spread out all over the place, you're using a lot of guards. If you'll let me do a security survey of your place, I will give you a proposal that I guarantee will save you money.' "

Wathen was selling manpower—his employees' time—but he showed his potential customer how to save manpower "by installing alarms and access controls, using radios, putting a fence up, making one guard do for two buildings—stuff like that." The result: CPP got what Wathen calls "my first big account."

**H**e soon began turning his employees into guards of the kind he hoped to see when he was buying services from other security firms. It was obvious then, he says, "that security officers had very little training. Very few of them had manuals telling them what to do."

The major security companies did train their guards, but in those days, all the major companies were based on the East Coast, and "they didn't have their eye on that California market," says Robert D. McCrie, associate professor for security management at John Jay College of Criminal Justice in New York. A California-based company thus could shine by providing even "a little bit of training," McCrie says.

Wathen did more than that, in particular by giving his guards continuous training after they were on the job. Since 1967, he has required guards to call once a week to hear a recording on which he talks about different aspects of security. Each guard must list the talk's title and number on a daily activity sheet. (To sweeten that requirement, a Social Security number is read out at the end of each recording, and that officer gets a prize.)

Wathen started producing his own training films around the same time, and he made them portable, in those days before videotape, thanks to a projector with a built-in screen. The films could thus be used not just during basic training but also as refreshers on the job site.

About nine years ago, CPP developed



Most of the 40,000 Pinkerton employees are uniformed guards like these.

Wathen grew up in Vincennes, Ind. After a couple of false starts in college, he finally found a major that intrigued him, and he graduated from Indiana University with a degree in police administration. From there he held a string of security jobs, first in the Air Force and then for the federal government and several large corporations.

CPP was quite a contrast. It had only 18 employees and \$163,000 in annual revenues. Wathen was skeptical: "I thought, if I'm going to join this company, I certainly want some equity. I bargained with them to buy 49 percent at a given price," around \$60,000.

Nine months later, Wathen bought the company outright—and immediately found himself in deep trouble: "They were bankrupt, and I was too dumb to

him—in the amount of \$17,000.

As Wathen says, "It's amazing that I survived"—and it is perhaps even more amazing that "we were out of debt at the end of the first year." Like many other entrepreneurs who have clawed their way out of deep holes, Wathen is hard pressed to recall just how he did it: "I look back and I wonder, how did I do that? It was tougher than I thought at the time. I didn't really feel it." Why he did it is much easier to remember: "I had to survive; I had no choice." If CPP had gone under, he says, "I would have been mortified; it would have been a mortal wound to my pride."

As the new owner of CPP, Wathen found himself in a highly fragmented industry. Many customers had long viewed security as simply a guard with





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training by correspondence. After completing self-tests on five volumes of lessons, a guard takes a proctored exam to become a "certified security officer" and to earn three credit hours from any one of several universities. "We won't promote you unless you complete that course," Wathen says.

Wathen tests before hiring, as well as after. He introduced psychological testing in 1984, when he was hiring officers for the Olympics in Los Angeles (CPP provided almost two-thirds of all the private-security hours for that event), and he says Pinkerton's now tests every applicant. McCrie says that "Pinkerton's is definitely above the average" in the screening of its guards.

Because Wathen's improvements do not entail large costs, he has been able to compete not just on performance but on price, which can be critically important in an industry where many customers continue to look to price alone, and fierce competition typically holds after-tax margins to 2 or 3 percent. The security industry swarms with 10,000 or more firms, and even Pinkerton's has probably less than 10 percent of the market.

**G**uards are still relatively inexpensive (the average hourly rate varies from region to region, but is usually less than \$10), and Wathen says low prices contribute to customers' lack of interest in a more sophisticated approach to security. "The vast majority of people who come to us looking for some sort of proposal do not have good specifications," he says. "I love it when they require you to have extra training."

One of Wathen's customers, Hewlett-Packard Co. of Palo Alto, Calif., wants its security officers to have "communications skills." Jim Hacker, Hewlett-Packard's worldwide security manager, says: "We're an international company. [Guards] have to be able to communicate with people from different countries," whose mastery of English may be weak. Through CPP and Pinkerton's, Wathen has provided security to Hewlett-Packard for almost 20 years—currently 10,000 hours a week.

Wathen parts company with a few of his customers on one point: He doesn't

like his guards to carry guns. Only 1 or 2 percent of them do. "I'm proud that I led the fight to disarm private security officers, beginning in the early '70s," he says. "By lobbying in California for a training requirement and a background check on people who carry firearms, we effectively disarmed 50 percent of them overnight."

He is a gun fancier himself—"I love to shoot"—but, he says, "I just don't want people carrying guns in situations where even I would have some doubts about my instinctive reactions." Some customers—banks, nuclear-power plants—still insist that guards carry weapons, but, Wathen says, "we don't like to take jobs like that."

Wathen is not shy about shedding jobs he doesn't care for. When he brought Pinkerton's under CPP's tent, combined annual revenues were about \$650 million, but, he says, he quickly disposed of about \$140 million in unprofitable business. The cutbacks have been largely offset by new accounts, and revenues last year to-



Allan Pinkerton founded Pinkerton's as a detective agency in 1850.

taled \$605 million.

Pinkerton's is now solidly if not yet impressively profitable; net income last year, after taxes and interest on its debt, was over \$6 million. In February, Wathen filed to take the company public, and in March, he refinanced Pinkerton's debt, obtaining "extremely favorable rates" and a four-year moratorium on repayment of principal. He is talking now about acquisitions and revitalizing the investigative side of Pinkerton's.

"I love to grow," Wathen says. "Growth has always turned me on, and now we'll be able to go out and beat up on people again."

Many entrepreneurs can easily transplant their drive to succeed from one business to another, but Tom Wathen's success clearly owes a great deal to how much he likes his line of work. When he tries to articulate what it is about the security business that he finds so gratifying, one theme recurs: He is very good at what he does, and being good at it produces an "inner satisfaction."

"I'm a little bit of an idiot savant," he says. "I think I do security things very well. I'm not very good at anything else, but at least I can tie my shoes." ■





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# SBA Winners By State

**T**he Small Business Person of 1990 will be chosen this month from 53 state and territorial winners.

Selection of the national winner is the highlight of the annual Small Business Week sponsored by the U.S. Small Business Administration to dramatize the key role of entrepreneurs in the American economy. The theme for this year's observance is "Small Business: Leading America Into The 21st Century." SBA will choose the winner from this list of finalists:

**Alabama.** William H. Stender Jr., CAS Inc. (engineering services), Huntsville.

**Alaska.** Jerry A. Scudero, Taquan Air Service Inc. (air-taxi service), Ketchikan.

**Arizona.** James L. Harrold, Webcrafters Inc. (printing), Tempe.

**Arkansas.** G. David Mathews, Ozark Mountain Enterprises (hand-forged iron products), Mountain View.

**California.** Anne Speake, International English Institute (private English school), Fresno.

**Colorado.** John A. Trujillo III, Mission Trujillo Restaurant, Littleton.

**Connecticut.** John Pompea, Contact Systems Inc. (circuitry), Danbury.

**Delaware.** William W. Davis Sr., Pulsar Credit Corp. (office-equipment leasing), Newark.

**District of Columbia.** Mel Chaskin, Vanguard Research Inc. (engineering), Fairfax, Va.

**Florida.** Scott T. Sorensen, Sorensen's Moving and Storage, Melbourne.

**Georgia.** Joseph E. Patrick, Label America (printed labels), Stone Mountain.

**Guam.** William H. Thomasson, Thomasson Enterprises Inc. (management services), Tamuning.

**Hawaii.** George H.T. Chu, GBC Inc. (packing materials, party supplies), Honolulu.

**Idaho.** Mark and Betty Heath, Business Interiors of Idaho (office design), Boise.

**Illinois.** Phyllis L. Apfelbaum, Arrow Messenger Service Inc., Chicago.

**Indiana.** Robert J. Stevens, Impact Forge Inc. (steel and aluminum parts), Columbus.

**Iowa.** V.E. "Barney" Roberts, Iowa Office Supply Inc., Storm Lake.

**Kansas.** Marta E. Maxwell, Airparts Company Inc. (wholesale aircraft



ILLUSTRATION: SMALL BUSINESS ADMINISTRATION

parts), Wichita.

**Kentucky.** John M. Robertson, Louisville Stoneware Co. (dinnerware manufacturer and supplier), Louisville.

**Louisiana.** William J. Brady, Halko Industries Inc. (cargo nets, aircraft materials), DeQuincy.

**Maine.** Thomas N. Hackett, Advantage Business Services (payroll, bookkeeping), Auburn.

**Maryland.** Penny L. Green, Penelope Linens (bed and bath products), Pikesville.

**Massachusetts.** Stephen H. Connolly, Steve Connolly Seafood Co. Inc., Boston.

**Michigan.** Donald G. Heeringa, Trendway Corp. (office partitions), Holland.

**Minnesota.** Ronald E. Schmitz, Ron's Cabinets Inc., Sauk Rapids.

**Mississippi.** Toxey D. Haas, Haas Outdoors Inc. (camouflage clothing), West Point.

**Missouri.** Robert C. Byrne, Byrne & Jones Construction (asphalt paving), Maryland Heights.

**Montana.** Catherine Engel and Carol Fagan, Wind Related Inc. (windsocks), Hamilton.

**Nebraska.** Hugh W. Hunt and Richard A. Hunt, HunTel Systems Inc. (local telephone company), Blair.

**Nevada.** Linda L. Montgomery, The Learning Center (computer training), Las Vegas.

**New Hampshire.** Ned Densmore, The Village Book Store, Littleton.

**New Jersey.** Gregory H. Olsen, Epitaxx, Inc. (fiber optics), Princeton.

**New Mexico.** Beverly J. Duran, Carretas

*The Small Business Person of the Year will be chosen from these successful men and women of enterprise.*

Inc. (pushcart manufacturer), Albuquerque.

**New York.** Michael A. Verstandig, Window Headquarters Inc. (windows, doors, skylights), Brooklyn.

**North Carolina.** Tony A. Pope, Catawba Transportation Group Inc. (vehicle leasing), Claremont.

**North Dakota.** Greg L. Ness, G.L. Ness Agency (marketing, advertising), Fargo.

**Ohio.** Randy Wilcox, Inacom Computer Centers Inc. (computer sales), Worthington.

**Oklahoma.** Martha S. "Marty" Machino, Attie Babies Inc. (designer dolls), Drumright.

**Oregon.** Roger W. Stokes, Brill Metal Works Inc. (sheet-metal fabrication), Medford.

**Pennsylvania.** Richard L. Miller Jr., Pennsylvania Precision Cast Parts Inc. (steel castings), Myerstown.

**Puerto Rico.** Rafael L. Rovira, Rovira Biscuit Corp., Ponce.

**Rhode Island.** Jason A. and Susan C. Dittelman, East Greenwich Photo, East Greenwich.

**South Carolina.** James F. Martin, Martin Color-Fi Inc. (polyester-fiber manufacturer), Sumter.

**South Dakota.** Gordon F. Thomsen, Trail King Industries Inc. (industrial trailers), Mitchell.

**Tennessee.** Ralph R. Owens, R & D Tire Mold Co. Inc. (aluminum truck and tire molds), Mt. Pleasant.

**Texas.** Antonio Flores Jr., Rite-Way Services of San Antonio (custodial services), San Antonio.

**Utah.** Barry D. and Kathy Mower, Lifetime Products Inc. (playground equipment), Clearfield.

**Vermont.** Joseph F. and Helene L. Masimino, Oatmeal Studios (greeting cards), Rochester.

**Virginia.** Gordon E. Christie, A Touch of Class Catering Inc., Virginia Beach.

**Washington.** David E. Frame, American Line Builders Inc. (power lines and stations design), Dayton.

**West Virginia.** Douglas R. Farr, Farr Manufacturing and Engineering Co. (industrial equipment), Williamstown.

**Wisconsin.** Chester L. Krause, Krause Publications (books, periodicals), Iola.

**Wyoming.** William H. Smith, H.A. Smith Co. Inc. (industrial, agricultural, and oil-field supplies), Worland. **B**



# Benefits Update

*Trends and developments that will keep you current in the area of employee benefits.*

By Roger Thompson

## THE INSURANCE MARKET

### Pressure For Action On Health Coverage

Battle lines are being drawn on Capitol Hill over the best way to make health-insurance coverage more available and affordable for small employers. The insurance industry and some lawmakers differ on the extent to which federal regulations should be used to solve current problems.

Legislators advocating a prominent federal role argue that controls are needed to eliminate insurance-industry practices that are driving some small employers out of the health-care market and making it impossible for others to provide health coverage in the first place.

The health-insurance industry says the answer is not in more federal controls, and it has developed a major new initiative to deal with the coverage problems that small firms encounter.

The Health Insurance Association of America (HIAA), the industry's leading trade group, says that under its plan, firms with 25 or fewer workers would not be denied health coverage even if one or more of their employees might be a high risk or uninsurable in today's market. Once insured, neither the group nor an individual in the group would be denied continued coverage because of health problems.

The plan would establish limits on how much premiums and annual premium increases could vary for similar groups.

The plan also calls for a special insurance pool for high-risk individuals.

The HIAA previously had called on Congress to restrict states from regulating the content of health-insurance policies (see next item). And it wants the self-employed to have the same 100-percent tax deduction for health-insurance premiums already available to other businesses. The self-employed now get only a 25-percent deduction.

"This plan represents a fundamental change in the way our industry does

business," says Carl J. Schramm, HIAA president.

But it doesn't go far enough in the eyes of some lawmakers.

Proposals for government action to restructure the small-business health-insurance market are being pressed on Capitol Hill as part of legislation that would require all employers to provide health-insurance coverage to employers and their dependents. Its sponsors are Sen. Edward M. Kennedy, D-Mass., and Rep. Henry Waxman, D-Calif.

Under the proposed legislation, insurers would not be allowed to screen for medical risks when setting premium rates.

A bipartisan congressional commission in March also called for an end to the practice of medical underwriting (considering a person's age and health status in setting premiums) and recommended that insurers be required to offer at least one basic health plan to small firms, with coverage defined by

federal regulation.

The HIAA will fight to maintain insurers' right to consider an individual's health in setting rates, says Melanie K. Marsh, the organization's manager of consumer affairs.

Marsh also says that insurers oppose any congressionally mandated basic health-insurance package for small firms because, over time, Congress would add expensive mandates to it.

Despite the differences between insurers and lawmakers, there is consensus on much that needs to be done concerning health insurance.

Frederick J. Krebs, manager of business and government policy for the U.S. Chamber of Commerce, notes that the HIAA proposals closely track similar insurance reforms that were proposed last fall by the Chamber's board of directors. "The small-business community is willing to work with the insurance industry to achieve these reforms," Krebs says.



PHOTO: KEN HEINER  
Carl J. Schramm

## RESEARCH

### Mandates Drive Up Employers' Costs

Health benefits commonly mandated by the states drive up insurance costs and discourage small employers from providing coverage, according to a new research report in *Inquiry*, a health journal published by the Blue Cross and Blue Shield Association of Chicago.

For example, adding coverage of treatment for chemical dependency increased health-insurance premiums by 8.8 percent; psychiatric hospital stays increased premiums 12.8 percent; psychologist visits, 11.8 percent; and routine dental visits, 15 percent.

The number of state-legislated health mandates rose from 343 in 1978 to 732 in 1988.

The report also found that "approximately 16 percent of small firms not offering health benefits to their employees would offer benefits in a less heavily mandated setting."

## TAXATION

### The Health Tax Adds Up

Taxing all employer-paid health-care benefits as income would cost workers \$133 billion in additional taxes over the next five years, according to the Congressional Budget Office (CBO).

In a 470-page report on ways to cut the deficit, the CBO also figured that capping tax-exempt employer contributions at \$250 a month for a family and \$100 for an individual would cost employees \$30 billion in income taxes from 1991 to 1995.

Under a different approach, CBO looked at treating all employer-paid health benefits as taxable income but offering a tax credit of 20 percent for health premiums up to \$250 a month for family coverage and \$100 a month for individual coverage. This option would increase income taxes by about \$17 billion over the same five-year period.

No proposals for any such taxation are now pending in Congress.



## REGULATION

## Create An Agency On Employee Benefits?

Hardly anyone favors expanding the federal bureaucracy these days, but a consultant with Foster Higgins & Co. in Princeton, N.J., thinks it's high time that Congress created an employee-benefit agency. Richard G. Schreitmüller maintains that such an agency would serve as an advocate within government for business on legislation as well as regulations concerning employee benefits.

Under the current setup, the Internal Revenue Service influences congressional deliberations on new benefit laws and writes the regulations to enforce the laws. The problem, Schreitmüller says, is that the IRS is more concerned with raising revenue than administering benefits. "Until benefit regulation is moved out of the IRS," he says, "we can expect more fiascos like Section 89," the complex health-benefit nondiscrimination rules that Congress repealed under a storm of protest last year.

Schreitmüller is particularly concerned about IRS involvement with pension laws.

Last year, employers scrapped three

defined-benefit pension plans—the most generous type of retirement plan—for every one they created. From October 1988 to September 1989, the IRS received 15,848 letters from employers seeking to end their defined-benefit plans, compared with 5,461 letters

from employers seeking to inaugurate such plans.

"In theory," Schreitmüller says, "IRS rules on funding, benefits, etc., seem aimed at protecting employee rights. So you might expect to find IRS working

with benefit experts to see that rules are issued when needed, make sense, and are followed.

"But in practice, these IRS rules are created in secrecy and seem aimed at intimidating employers, catching violators, and raising revenues. What's needed is an agency with a mandate to make benefit plans work, not just collect taxes."

John N. Erlenborn, a Washington lawyer who helped write current pension laws as a member of Congress, notes that he made a similar proposal in 1974, and he got nowhere with it.

*What's needed is an agency with a mandate to make benefit plans work, not just collect taxes.*

—Richard G. Schreitmüller

## PAPERWORK

## A Tax Form You Can Forget—Almost

Small companies just got a paperwork break from the IRS. The agency recently ruled that firms with fewer than 100 employees can forget about filling out a work-force and benefit-participation form designed to help identify benefit plans that discriminate in favor of higher paid employees.

Congress made the Form 5500 reporting requirements for small businesses part of the 1986 tax-reform law, along with the infamous Section 89 nondiscrimination rules for benefit plans. While Congress repealed Section 89 last year, it left the new Form 5500 reporting requirements intact.

Now the IRS has dropped the reporting requirements for small firms. "With the repeal of Section 89, the IRS has ruled that it is no longer necessary to



bother filing the required information," says Andrew Zuckerman, a tax specialist with the Grant Thornton accounting firm in Washington, D.C. "For small employers, it was another nuisance that was unwarranted. It was a wise decision by the IRS not to require filing when it was not going to

be used for any purpose."

The IRS ruling waives Form 5500 reporting for small companies that maintain health insurance, group term life insurance, and dependent-care programs for their employees. Companies offering cafeteria plans, group legal insurance, or education-assistance plans were subject to Form 5500 reporting before the 1986 tax-law changes and must continue to file the form, says Zuckerman.

## AUDITS

## IRS Vs. Small Pension Plans

The professional group that represents pension-plan designers has accused the Internal Revenue Service of launching an "illegal and abusive [audit] program directed against small defined-benefit plans."

In initiating the audit program, the IRS said some doctors, lawyers, investment bankers, and other highly compensated individuals deduct too much for contributions to their defined-benefit plans. The new audit program, according to budget forecasts by the Bush administration, will increase revenue by \$64 million in fiscal 1990 and by \$602 million in fiscal 1991.

The program directs IRS auditors to review 18,000 small, defined-benefit pension plans during fiscal years 1990 and 1991, up from 700 previously planned for review. Auditors have been instructed to challenge all plans that assume retirement before age 65 or annual interest on plan assets of less than 8 percent. Either assumption can result in higher tax-deductible contributions to the plan.

Robert I. Brauer, an assistant IRS commissioner, says the program addresses "what the service considers to be abusive tax practices of a relatively small number" of businesses. He noted that the audit program will examine only a fraction of the 700,000 small defined-benefit plans filed with the IRS from 1986 to 1988.

Details of the audit program became public after the American Society of Pension Actuaries (ASPA) sued the IRS under the Freedom of Information Act to release a Nov. 29, 1989, memo outlining the program to IRS field agents. Chester J. Salkind, executive director of the ASPA, maintains the IRS lacks authority to dictate acceptable retirement ages or interest rates. Federal pension law gives that authority only to certified actuaries, he says. Moreover, many large pension plans use the same early-retirement and low-interest-rate calculations that the IRS is challenging when used by small plans.

Salkind says the IRS skirted federal procedural rules by launching the audit program without public disclosure and comment. He also says that, contrary to IRS statements, the audit program is not limited to professional groups. He says his organization has received many calls from small firms whose plans have come under scrutiny.

ASPA is seeking a congressional hearing on the audit program before the House Small Business Committee. **■**



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# Family Business

*Couples in business and in divorce court, the tensions of transition between generations, and seizing the helm when the captain is disabled.*

## COMMENT

### Mixing Marriage And Business

By Sharon Nelton

"Trump: The Divorce" sent reporters across the country scurrying to get stories on the pitfalls of being in business with a spouse. All I know about the Trumps is what I see in the news media, and I'd say they are not your typical couple in business.

Still, there may be a lesson here. Long before the split, when Donald Trump told the media that for running the Plaza hotel, his wife would receive \$1 a year and all the dresses she wanted, Ivana should have suspected he was not taking her seriously as a businesswoman. On the one hand, he praised her skills as a manager; on the other, he made a too-cute joke at her expense.

A more poignant story has unfolded in Indianapolis. There, the founders of Resort Condominiums International Inc., Jon and Christel DeHaan, have divorced, and the ultimate control of RCI, a vacation-exchange business with nearly \$100 million in annual sales, is being determined in court. Jon claimed he owned 80 percent of the 16-year-old company, and he used that figure in an effort to oust Christel. Christel said the 80-20 division was set up for tax purposes. Last May, a superior court judge ruled that the two had contributed equally to the success of RCI and that Christel, who was found to have more financial acumen than Jon, could buy out his half at \$67.5 million before taxes. Christel is now in power at RCI, but Jon has appealed the decision.

Is their experience proof that couples shouldn't go into business together?

No. Countless couples happily survive being business partners. And when a marriage collapses, we don't really know whether it was the business or something else that doomed it. Jon De-

Haan had suffered heart disease since 1979, and reports suggest that his deteriorating health placed as much strain on the marriage as the business did. Christel told *Savvy Woman* that if she had it to do over again, she would still go into business with her husband.

What I would suggest, however, is that parties to such a marriage weigh tax savings against the necessity of some day having to prove in court their contribution to the success of a business. Accountants, for example, have

often advised that one spouse be paid a high salary and the other spouse receive no salary at all so they could avoid paying Social Security tax twice. A court might have a hard time taking seriously an estranged wife's claim to assets if, on paper, the business hasn't thought enough of her to pay her. It's wiser to pay each individual according to his or her position, and if Ivana Trump is really running the Plaza, she should be compensated accordingly.

Just as important is an agreement on how the spouses will handle the business if the personal partnership ends. Should one buy out the other? If so, how? It sounds hard-nosed when you're in love, but it protects both partners.

We need the energy and creativity of couples in business—couples like the DeHaans, who revolutionized the U.S. time-share industry by introducing the concept of vacation exchanges.

If couples avoided starting businesses because they feared that divorce would naturally follow, we might never have had Gore-Tex fabric, Liz Claiborne's wonderful clothes, or a Marriott hotel. And Mrs. Fields would still be baking cookies just for her husband, not for the rest of us.



Nelton: "Countless couples happily survive being business partners."

## PLANNING

### The Fear Of Losing It All

By Craig E. Aronoff and John L. Ward

"No way. I can't risk all our work of 37 years on this idea—just because it looks good on paper!"

"We are not risking everything, Dad. And it's not a harebrained scheme. You've seen the numbers. The company's in great shape. We're debt-free. You're too conservative. If we don't do it, our competition will."

"Numbers are just numbers. Look, you're beginning to take a bigger role—so I can finally take a little time off—but you still need me. Things are going well. And now you want to go running off in new directions. If it ain't broke, don't fix it."

"Bottom line, Dad: You don't trust me. You don't think I can make it happen."

"Yes, I do, son. But you have time. If you blow it, you can work to get it back. I'm too old. When I was your age, I did things like you're talking about. Some worked. Some didn't. Go for it, but do it with your own money."

A dialogue such as this takes place in almost every successful family business. Parents and children take these arguments very personally. But they shouldn't. The conflict grows almost inevitably from the passage of time and the entrepreneurial personality.

Parents who started or built businesses took what most would see as large risks. But in their own eyes, building a business and seeking financial independence were not risks, they were the natural things to do.

When times were rocky, the entrepreneur worked smarter, harder, and longer. Experience taught a clear lesson: Through self-reliance and hard work, you can overcome almost anything—if you personally are in control.

But now, late in his business career, the entrepreneur feels that he is losing control. The world is changing. Old, comfortable relationships are disrupted by retirements, even deaths. Successors push for new responsibilities and seek new opportunities.



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# Mark Your Calendar

## May

"Answering the Hard Questions About Your Family-Owned Business" is the theme of four one-day workshops sponsored by the Menninger Clinic of Topeka, Kan., and Le Van Associates of Baton Rouge, La. Dates are May 2, Dallas; May 10, New Orleans; May 15, San Antonio, Texas; and May 16, Houston. For information, call 1-800-282-2766. In Dallas, call 716-2570.

## May 29-June 1, Philadelphia

"Chief Executive and Senior Officers of Family-Held Business," a seminar for owners and managers of family firms. Contact the Division of Family Business Studies, Sol C. Snider Entrepreneurial Center, The Wharton School, University of Pennsylvania, 426 Vance Hall, 3733 Spruce St., Philadelphia, Pa. 19104; (215) 898-4470.

## June

"Your Family-Owned Business: How To Build It, Manage It, Make It Last," a seminar sponsored by *Nation's Business*, Laventhol & Horwath, and Shearson Lehman Hutton, is offered three times: Rye Brook, N.Y., June 3-5; St. Charles, Ill., June 8-10; San Diego, June 21-23. Featured speaker is Peter Davis, director of family-business studies at the Wharton School of the University of Pennsylvania. For information, call 1-800-521-1818.

## June 13-15, Cleveland

"Managing Succession Without Conflict in the Family-Owned Business," a seminar for business owners, their spouses, successors, and key managers. It is conducted by family-business consultant Léon Danco. Contact the Center for Family Business, P.O. Box 24268, Cleveland, Ohio 44124; (216) 442-0800.

## July 19-22, Colorado

The Aspen Family Business Conference focuses on 10 essential qualities shared by successful family businesses, as identified by pioneering family-business consultant David Bork. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 101, Aspen, Colo. 81611; (303) 925-8555.

Where the founder had seen the business as dependent on him for direction and energy, he increasingly sees himself and his spouse as dependent on the business—and on the risky decisions of his children—for security.

Under these circumstances, the older generation's behavior is not just a matter of conservative business style. What you see is deeply ingrained fear—the fear of losing it all.

This fear must be addressed. While it is all well and good to talk about strategic or succession planning for family businesses, we believe that the first step must be planning for the financial security of the parents. They have earned it, and until that's resolved, it is very difficult to move forward with other aspects of continuity planning.

To the extent possible, parents' financial security should be achieved independent of the business. But most entrepreneurs have spent their lives plowing resources back into their companies. They rightly saw this investment yielding the highest returns. Unfortunately, this situation produces owners in their sixties, still dependent for security on the business, and struggling with their children over business strategy, risk, and control.

The solution rests on the family's willingness to recognize the situation and to talk about it. Difficult subjects must be discussed, including death, debt, money, and the founder's letting go of power. Parents must think in terms of the money required to provide them with the lifestyle they want.

Conflict exists because the needs and motivations of parents and successive generations are out of alignment. To accommodate parents' security needs and successors' ambitions, creativity and compromise are required. The sooner you start to make and implement plans, the more flexibility you have.

Independent financial security is usually achieved through some combination of insurance, savings, investments, pension programs, deferred compensation, Social Security, and other means. Here are some additional options:

- Successors buy out their parents through a leveraged buyout. They pledge the business's assets to gain bank financing to purchase their parents' stock. The parents gain financial

security. The next generation gets a business to run as it sees fit.

- The business takes a less risky strategic direction, seeking opportunities where little capital is needed. One alternative is to develop a service business related to the current business—that is, one not requiring hard assets. For example, rather than expanding its food vending machine operations, one company developed a catering business. Such approaches mean more funds are available to be paid to the parents in dividends, salaries, consulting fees, and the like.

- The business raises cash from new investors or sells some assets. Another option is to allow employees to participate in ownership, either by buying in directly or through an Employee Stock Ownership Plan (ESOP). Since the parents' money is no longer needed in the business, they can take the money out.

Probably the most common solution is the leveraged buyout. Some parents resist it, rationalizing that they don't want to place a burden of debt on their next-generation loved ones. Others recognize that risk and

debt can provide valuable discipline and perspective for members of the next generation as they learn how to manage margins and cash flow.

Once the parents' financial security is assured, the family and the business can get back to the critical issues of strategy and succession. Now the "only" obstacles to succession are the entrepreneur's ability to let go of being in charge and the successors' ability to take responsibility.



ILLUSTRATION: JIM STARR



PHOTO: T. MICHAEL KEZA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.



## CASE STUDY



ILLUSTRATION: JIM STARR

## Facing Up To Taking Action

For Bob Metcalf, the news of his father's stroke could not have come at a worse time. Calumet, the family's dress-manufacturing company, has just learned that its largest customer is switching to a competitor. Bob, 32, is sure that the firm's banker will see these latest developments as ominous.

"Dad's alive!" Bob thinks. "Thank God! But what do I do now? The doctor says he's not likely to ever come back as president. Should I take over now? If I do, I run the risk of Dad's anger and disapproval. But if I wait, it could be curtains for the company."

Ever since he joined the company directly out of college 10 years ago, Bob has spent his time and energy anticipating his father and reacting to him rather than developing opinions and a game plan of his own. It was a workable strategy for Bob while his father was vigorous and in control. It spells potential disaster now.

The company needs strong hands at the helm, but no plan exists that dictates whose hands those should be. The company's board of directors exists solely on paper; it has never met. The company's owners—Bob and his brother and two sisters—are owners in name only; their stock is tied up in a voting trust controlled by their father.

Bob doesn't know where to turn. His siblings, who do not work in the firm, are divided on what direction it should take. His colleagues in the business have always relied on Bob's father for decision making. What must Bob do?

## Grasp The Helm

*Kenneth Kaye, a psychologist in Chicago who specializes in resolving conflicts within closely held businesses:*

If the captain is disabled in heavy seas under a stormy sky and you've never skipped the boat before, don't try to keep on course. Haul in sail and steer into the wind. Secure your vessel and its cargo, and concentrate on keeping the crew members from falling, jumping, or being blown overboard while you reorganize them and learn to navigate.

Is Bob in command of this boat or not? If he is, he must act as decisively as he would if his father were dead. If Bob isn't prepared to stand up and explain his decisions to Dad six months from now—to take the consequences of his poor decisions and the credit for his good ones—then he's

the wrong man for the job.

"Am I captain?" is really three questions: Do I have the authority? Am I capable? Do I want the job?

For answers to the first two, he needs to turn to his most important advisers. His mother and perhaps his uncles can give him insight as to Dad's probable wishes; so can his banker and lawyer. With their mandate, assuming he wants the job, he should take charge. He should keep a good log, stay in close contact with the banker, and ask him what numbers he'll need to monitor. He should meet the banker's requirements but not expect him to take over

Dad's role as mentor.

Yes, the crew will be restless. So will Bob's siblings and other parties on board. Bob should just involve them in setting objectives, trust all hands to do their jobs, and be outward-bound.



PHOTO: MICHAEL HARRIS

## Seek Some Distance

*Roderick W. Correll, a former business owner and executive director of the Family Firm Institute, in Johnstown, N.Y.:*

The myth of the entrepreneur is that he or she is self-sufficient. To live in the image of his father, Bob is likely to try toughing it out alone. He shouldn't! While 10 years in a variety of responsible jobs at Calumet have given Bob knowledge of the company, he lacks the broad experience and backing to step immediately into its leadership. Of particular concern is his style of management—his tendency to manage to please other people rather than basing his decisions on rational analysis of the facts.

In this moment of corporate and personal crisis, Bob needs distance and perspective. A "retreat" that removes him from the scene for two or three weeks is a much-needed first step. Bob should make time to relax and step back from some of the emotions that currently grip him. He needs peace of mind to begin to identify critical facts, strengths and weaknesses, problems

and opportunities—both personal and business-related.

He needs to analyze his current situation, envision future goals, and develop alternative strategies for reaching them. It is unlikely that he can do this alone. At the very least, he needs a devil's advocate on retreat with him to help him think through some of his ideas and recognize that there are alternatives available to him.

Devil's advocates come in a variety of styles. Some can offer technical insights to overcome current problems. Others are masters of strategy and can help create plans for moving into the future. Still others can enable Bob to decouple from the emotional overload he is living with—a psychotherapist, for example, can help him deal with his fear of his father's anger.

For the longer term, Bob needs to take inventory of the people he can call on and choose some trusted advisers. Once he has done so, he must permit himself to rely on their discretion and skill, to speak openly with them, to listen intently to their words, and then to trust his own gut to form a plan that he will be able and willing to execute.



PHOTO: MICHAEL HARRIS

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J.

Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the insti-

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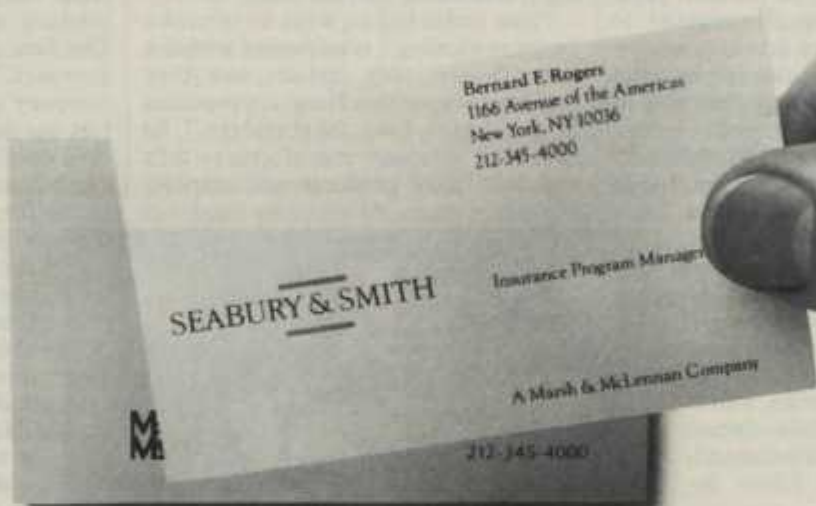
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## MARKETING

# Looking Good, Selling Better

By Meg Whittemore

Seven years ago, John Paino, president of Nasoya Foods, in Leominster, Mass., decided that the packaging of his tofu products needed updating. He wanted to give his health foods a fresh, new marketing identity, but he also felt he could not afford to hire a design firm at that stage of his company's growth.

"We were doing about \$1 million in sales then," he says, "and I wanted to wait until we topped \$4 million before I gave the go-ahead." But while he built his business, Paino also kept track of the work that a certain design firm did for clients in his area of northern Massachusetts. Paino liked what he saw from Selame Design, a firm in Newton Lower Falls, owned and operated by a husband-and-wife team, Joe and Elinor Selame.

By 1988, with consumers' interest in health foods still on the rise, Paino had reached his sales goal; he met with the Selames and decided to become one of their clients. He says he found that "there definitely was the right chemistry, which is important, since how my business was going to look to the customer was in their hands."

Paino's decision to have the look of his products redesigned reflected the reasons common to other companies taking such a step. An updated package can help reinvigorate sales when competition increases or consumers' buying trends begin to shift. "A fresh design of a product package can have a significant impact on sales," says Herbert Meyers, president of the Package Design Council, an international organization of package-design specialists.

"Redesign can mean anything from making a minor modification to a package design to creating a new design for a product that fits into the overall look of the manufacturer's existing product line," says Meyers, who also is a managing partner in the New York design firm of Gerstman + Meyers Inc.

For many firms, as for Paino's, deciding whether to have packaging redesigned can depend on cost, which may vary according to the company's size, the number of its products, and the scope of its redesign goals.

"What's affordable?" says Meyers. "It's relative. Sometimes a company can't afford *not* to redesign its packaging if it is losing market share."

Paino embarked on what he termed a "very rewarding" relationship with Selame Design. "My instinct was they could help reposition Nasoya's products in the health-food marketplace," he says. His company manufactures tofu and tofu-based products and markets

*Redesigning your firm's packages—or even its identity—could boost sales. Here are tips for getting it done.*

shelf; it really popped out at you."

Making products grab customers' attention is part of the strategy that Selame Design applies to its corporate, product, and retail identity programs. The firm uses what it calls a "family approach," which means it redesigns a company's entire image rather than just one or two of its product packages. "We develop a unique visual theme, or symbol, and use that as the focal point for individual package designs," says Elinor Selame. That way, the symbol appears over and over—on delivery trucks, on point-of-purchase items on store shelves, and on brochures, business cards, and other printed materials.

In other words, the first step in redesigning product packages is developing a corporate identity. "Every company, regardless of size, that interacts with the buying public should be concerned about how it looks," says Michael Chadick, co-founder of Chadick & Kimball, a Washington, D.C., design firm that specializes in developing multiple-use corporate-identity programs.

The term "corporate identity" can be off-putting to a smaller company, but the purpose that underlies the phrase is common to all businesses. Says Chadick: "It's simply having a clean, consistent look. . . . It's like an invisible handshake to a potential customer; it makes a statement about your product or service."

Elinor Selame agrees. "Sixty-five percent of all purchase decisions are on impulse," she says, "and that means there is a wonderful opportunity for a package to stop the customer and say, 'Here I am, look at me.'" The package design is part of the overall company image and carries the corporate identity symbol, or mark.

That approach was just what Paino was seeking. Joe Selame decided that Nasoya needed a visual design statement that could be used in everything from product packaging to store design if needed—a specific visual link between the company and the public.

The cost of redesigning a product package or creating a new corporate look can depend not only on the extent



PHOTO: T. MICHAEL REZA

Designing concepts for clients are Chadick & Kimball's Jo Kimball, Nicole Backus, Kristina Knight, Michael Chadick, and Jini Choi.

them throughout the eastern U.S. and Canada.

Since his firm is consumer-oriented, Paino explains, "I felt that our most important asset was our graphics. We needed a more upscale look that was bright and attractive and would jump off the shelf."

Selame Design decided to begin the redesign program with Nasoya's secondary product line: vegetable dressings and dips, and, particularly, cholesterol-free mayonnaise. "Originally, we called the mayonnaise product Nasoyanaise because we wanted to get our name in it," says Paino. Then Joe Selame, the firm's top designer, suggested "Nayonaise," which strikes a balance between "mayonnaise" and Paino's desire to have products reflect the company name, Nasoya. "That name shift jumped our sales by 50 percent," Paino says, "and the product no longer faded into the



of the work needed but also on the location of the designer. Design firms in small towns generally charge less than those in large cities, says Elinor Selame. The Selame firm's prices range from \$25,000 to \$100,000, depending on the complexity of the project. Remember that "it's a one-time expenditure if you do it right," she says. Hire the best package designer you can find, and amortize the price you pay over 10 or 20 years, she advises. "The amount of money amortized over 20 years vs. what a company might spend in advertising dollars is nominal."

**T**he cost of a corporate-identity program done by Chadick & Kimball, a medium-sized firm, can start at \$3,000 and go into the hundreds of thousands. Of course, Michael Chadick adds, "no one wants to spend any more money than they have to." He offers some cost-saving tips that can help a company decide first if it needs the help of a design firm and then, if it does, how it can get the most for its money. Chadick makes these recommendations:

- Tack onto a bulletin board samples of all printed materials on which the company's name appears. Then step back and see if all the pieces look attractive and graphically consistent. If even one piece looks out of place, the firm's image may need some polishing or possibly a complete overhaul.

- Find a good designer in your market. If you know of a friendly competitor whose corporate logo has been redesigned recently, call someone at that company and ask how it was done. If you find a particular company's business design attractive, obtain the name of the designer. Also contact the art directors' club and the advertising club in your community for designers' names.

- Interview several design firms, and select one that spends time getting to know your business. The more the designer knows about your company's goals, the more likely the design will reflect what your company is all about.

- Have the firm that does your design give you a manual containing all the design specifications. These include the typefaces, the ink colors, and the exact kinds and sizes of all paper and other materials for every purpose, from stationery to signs, product packages, and advertising layouts. With such a manual, you can reorder without going through the design firm.

- Make sure your company mark is simple in design and that it looks good both in black and white and in color, as



**A shorter name and a snappier label by the Selame Design firm perked up sales of Nasoya Foods' mayonnaise.**

well as in a variety of sizes. "It can't fall apart when it's blown up to the size of a billboard or shrunk to the size of an insignia on a pin," says Chadick.

The purpose of a well-designed company-identity package is to give the consumer a visual image that will communicate both the quality of the company and the purpose of the product.

That strategy worked for Triboro Quilt Manufacturing Corp., in White

Plains, N.Y. The family business, which makes baby clothing and bedding, was founded by Samuel Kaplan in 1933 and is run today by his son Alvin and grandson Joel, president and vice president respectively. The firm's products include sheets, pillow cases, blankets, comforters, diaper bags, pillows, quilts, sleepers, and pram suits.

In 1987, Triboro commissioned Selame Design to develop a new name, brand identity, package design, and in-store merchandis-

ing program for its baby products sold to mass merchandisers such as K mart.

"We designed a new identifier that shows a baby sleeping with the words 'Cuddletime' in a cloud over its head," says Elinor Selame. The Cuddletime mark now appears on Triboro's product labels, packaging, and retail merchandise displays. Says Alvin Kaplan: "This changed the way we marketed the items from a nonbranded to a branded product, and we experienced appreciable sales growth as a result." ■



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Henri Rousseau, *The Dream of Yodwigtha*, 1910



# What greenhouse effect? Forbes sees hype, not heat.

Everyone is in favor of protecting the environment, but is the greenhouse effect—a.k.a. global warming—fact or fantasy?

In the media and on Capitol Hill, one thing is sure—apocalypse sells. Doubtless this is why the greenhouse effect is now such a hot topic.

Risking some heat from this growing group of alarmists, Forbes took an independent look at the situation. What we found was indeed alarming. But it was hype, not heat. Not only does the latest data show that the effects of the greenhouse effect are—at worst—minimal, the cure being touted could easily result in a revolt of the poor countries against the rich and hurl the world economy into the red.

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## TAXES

# Should You Go Corporate?

By Gail Rutman

**B**y far, most small companies are sole proprietorships or partnerships. And for most, that's fine. Companies with limited liability usually prefer either of those types of business organization because the principal alternative—a corporation—generally entails much paperwork and close scrutiny by the state in which the company is incorporated.

Nonetheless, many owners are finding advantages in a corporate structure, not just as their companies grow, but sometimes from the time their firms are started.

If you think it may be time to consider a corporate structure for your business, you first should ask yourself a fundamental question: Is the complication worth the liability protection? Sidney S. Garnett, general manager of Corporate Agents Inc., a Wilmington, Del., company that forms corporations in all 50 states, puts it this way: "Do you need to be that sophisticated? If you can get by with a simple ledger, then time and cost say it's better to be a sole proprietor. If you are a flower shop or home-based business, why incorporate for liability protection?"

Although the regular corporate form could spell record-keeping complications and tax disadvantages for most closely held small companies, there is a corporate structure that they could find beneficial. It's the Subchapter S corporation. It offers major advantages because it integrates the advantages of the sole proprietorship or partnership and the regular C corporation.

Like a C corporation, the S corporation protects shareholders from business creditors and provides for the continuity of the business. And like a sole proprietorship or partnership, the S corporation passes income and deductions directly to the owners—a tax benefit that sets it apart from the C corporation. One problem, however, is that not all states recognize the S-corporation election; you will need to check your state's law.

In a C corporation, earnings are taxed first at the corporate level and then are taxed to shareholders upon

distribution as dividends. The C corporation's double taxation, widely disliked by C-corporation shareholders, grew more serious after Congress amended the tax structure in 1986. Before tax reform, the top corporate rate (46 percent) was lower than the top individual rate (50 percent). Now the top corporate rate, at 34 percent, is higher than the 28-percent top individual rate (which has a 33-percent "bubble" for some

Bill Bethel says, "but at the lowest possible rate." Not wishing to relinquish any liability protection, the Bethels achieved a lower tax rate by converting their C corporation to S status.

A personal-service corporation could avoid the S-corporation switch by paying out all of its earnings in salaries to the owners. This way the corporation gets a deduction, and the earnings, in the form of salaries, are taxed at the



PHOTO: ©LINDA SUE SCOTT

**Tax savings "can be incredible" for a company that becomes an S corporation, says accountant Judy Chiao Smith of San Rafael, Calif.**

high earners). Not only does the corporation's top rate now exceed the individual rate, but the personal-service corporation suffers the greatest potential tax harm.

The Internal Revenue Service includes in personal service such fields as health, accounting, law, architecture, performing arts, and consulting. Profits left in the corporation become subject to a straight 34-percent tax, not the graduated tax available to individuals and to C corporations.

Bill Bethel and Sheila Murray Bethel, owners of Getting Control Inc., in Burlingame, Calif., confronted this problem in 1987 for their profitable writing and speaking business. "We are willing to give the government its fair share,"

individual rate.

There are drawbacks to this approach, however. One product-liability lawyer, for example, attempted to pull out all of his corporation's earnings in the form of a year-end bonus. But he was unable to compile sufficiently detailed accounting records before the year closed to permit a reasonably precise profit estimate. Thus, the corporation retained a substantial amount of the profit, increasing the attorney's overall tax burden.

Because there is a "bubble" in corporate rates as there is in individual rates, when a nonpersonal-service corporation's earnings climb beyond \$155,000, they begin to confront skyrocketing taxes. At about this profit point, the

*Gail Rutman is a free-lance writer and certified public accountant in northern California.*



# *Converting your firm to an S corporation could be just the tax-saving strategy that it needs.*

corporate tax liability starts to outdistance the individual's. (It gets complicated, and for the details, you should consult with a competent tax adviser.) An S corporation, though, can offer an accessible shelter from soaring taxes.

Judy Chiao Smith, a partner in the San Rafael, Calif., CPA firm of Buchanan, Chiao and Smith, recognized such a possibility with a client who designs and sells paper products. It is a one-shareholder corporation with 50 employees. The company's owner, though active in management, could face IRS restrictions for removing the business's earnings entirely as salary. The IRS requires an owner's salary to be reasonable for the services performed. For this profitable paper company, therefore, "the main advantage of an S corporation is the favorable tax consequences when income increases," says Smith. "Savings can be incredible" when income is passed directly to the shareholder and taxed at the individual's rate.

In order to elect and maintain an S-corporation classification, a company must meet the Tax Code's rules in two categories:

**Type Of Corporation.** It must be a domestic (not foreign) corporation. It cannot be a member of an affiliated group, as a parent or subsidiary corporation. Nor can it be a financial institution or, with rare exceptions, an insurance company. The firm cannot be a corporation that has elected a special tax credit for income from U.S. possessions, and it cannot be a Domestic International Sales Corporation; a DISC is a U.S. corporation that exports U.S.-made goods and is allowed a special tax status.

**Shareholders.** The corporation must have no more than 35 shareholders. (Husband and wife are treated as one shareholder.) Only U.S. citizens, estates, and certain trusts qualify as shareholders. The corporation can have only one class of stock.

For a company converting from C- to S-corporation status, however, a prob-

lem might emerge in the form of the built-in-gains tax—the BIG tax. It is designed to discourage C corporations from switching to S status to avoid corporate-level taxation on the disposal of appreciated assets.

This tax can apply to property, equipment, inventory, goodwill, and even, for a cash-basis taxpayer, accounts receivable. This excess, or built-in gain, can subject both the corporation and its

tax paid by the corporation.

The corporation can choose from various tax umbrellas, however. Assets with losses, such as undesirable real estate, obsolete equipment, and accounts payable for a cash-basis company, can be paid off or sold at the same time appreciated assets are disposed of to reduce the gain. Another option is to hold appreciated assets for longer than the 10-year period, or trade them in a tax-free like-kind exchange. Or the corporation could dispose of appreciated assets before electing S status. An alternative for a cash-basis corporation is to accrue payables just before conversion, like large—but reasonable—bonuses to shareholder/employees.

Planning for the BIG tax, therefore, can diminish or eliminate it. The most prominent BIG asset on the balance sheet of Judy Chiao Smith's paper client at conversion was goodwill. As long as the company remains in the present owner's hands for longer than 10 years, the BIG tax will barely surface.

An enterprising S corporation wishing to expand its horizons by starting a subsidiary company runs headlong into a tax barrier. Another of Smith's clients, an environmental-engineering corporation with four active shareholders and 150 employees, is growing. Although the company has been an S corporation for over 20 years, its classification could be revoked by the IRS if the firm starts or acquires a subsidiary.

"Therefore, we must plan around it," Smith says. "The shareholders can form another corporation with a mirror structure, or form a partnership."

Shareholders also could voluntarily terminate S status with a majority decision if they conclude a C corporation is more advantageous. By meeting certain conditions, shareholders can elect S status again after five years.

The Tax Code does not allow S corporations to deduct health and other employee benefits for shareholder/employees who own more than 2 percent of the stock. So why pay shareholders salaries if there are no benefits?

S-corporation shareholders who ac-



PHOTO: ©GEORGE ILSON


**Business owners Sheila Murray Bethel and Bill Bethel lowered their tax rate without giving up liability protection.**

shareholders to a substantial tax if the S corporation disposes of any of the assets within 10 years after conversion.

For the corporation, the tax is based on the excess of the assets' combined fair market values over their bases (usually cost-adjusted for depreciation) at the date the corporation converts to S status. It is triggered when the assets are sold or distributed. For the shareholders, the tax is applied to the total gain at the time of disposal minus the



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### TAXES

tively run their businesses sometimes declined any salaries, preferring to withdraw the cash as nontaxable distributions. As a further incentive, cash draws to actively participating S-corporation shareholders have not been subject to the Social Security self-employment tax imposed on active partners in a trade or business partnership.


The Internal Revenue Service has caught on and is now enforcing a 15-year-old ruling that lets the agency reclassify shareholder distributions as wages where appropriate and, therefore, collect payroll taxes.

**A** way to minimize the effects of the salary issue is to assume a compromise position. Shareholder/employees can pay themselves the least amount of wages necessary to show they are compensated for their services, then take out additional cash in distributions.

As with limited partnerships, S corporations historically have offered a tax haven. Shareholders could use the losses that typically occur in the start-up phases of an enterprise to offset income on their individual tax returns. These were the benefits to the seven shareholders of an agricultural research-and-development S corporation begun in the early 1980s. "The S corporation has served a very useful purpose in their case," says Gregg Smith, partner in the CPA firm of Buchanan, Chiao and Smith. "In the early stages, it served to pass current losses through to the shareholders" up to the amount of the shareholders' investments and loans to the corporation.

Today this S corporation's framework serves its shareholders in a different way. Since the owners do not actively partake in the business operations, current tax strictures classify their investments in this corporation as passive. Investors generally must have income from passive activities to be able to deduct passive losses. Since the business has become a profitable venture, it now functions "as a passive-income generator," says Gregg Smith, "and can be used to offset passive losses from other investments."

Although the S corporation has inherited some undesirable as well as favorable traits from its parents—the C corporation and the partnership—it nonetheless offers shareholders attractive opportunities. Consultation with a tax adviser and careful planning can minimize many of the negative elements in S-corporation status, however, leaving a business's owners with a viable, less-taxing structure. **■**

 To order reprints of this article, see Page 75.



## ENVIRONMENT

# Avoiding Risks By The Acre

*Before you buy land for your business, make sure the property has no environmental hazards—or you could face a costly cleanup.*

By Bradford A. McKee



PHOTO: GLENN BRIDGEMAN—WOODFIN CAMP

In 1986, Robert Kilgore's plans for building more than 600,000 square feet of commercial office space on a tract in Tredyffrin Township, Pa., collapsed just before work was to begin. Traces of polychlorinated biphenyls, or PCBs, were found in a stream on the 80-acre site.

The hazardous industrial waste was coming from a "heavily contaminated" rail yard about a mile away, Kilgore says.

Kilgore had to postpone the project indefinitely to find out if the stream had polluted his land. "I was sick. Absolutely sick," about the delay, he says.

He cut the 20-person staff to six at Kilgore Co., a 22-year-old development firm in the Philadelphia suburb of Wayne, and he braced for financial ruin. After nearly four years, "I still do not know whether the ground is worthless or not," Kilgore says.

Since the devastating news came, Kilgore has kept his company running on a string of smaller projects. He has worked closely with the U.S. Environmental Protection Agency, but he does not yet have a clean bill of health for

**Robert Kilgore's plans to build office space on this site were shelved by environmental problems.**

the 2-square-mile site. He says the EPA lacks guidelines on what degree of contamination requires cleanup.

"The delay has been agonizing," Kilgore says. "It's been a severe blow to us not to get that project moving. But the law places the onus for the environmental condition of a site squarely on the owner."

The federal Superfund law holds present owners of contaminated sites liable for cleanup costs unless they prove they are "innocent landowners." An innocent landowner is one who, before buying land, tried to find out whether toxic materials ever were put there.

Hazardous wastes on property can come from the past use of petroleum products, from industrial chemical residues, or from leaking underground tanks. Undeveloped sites may be polluted by wastes that migrate beneath the surface in ground water from contaminated sites nearby. Superfund cleanups

can cost millions and take years to complete.

Kilgore's experience demonstrates how important it is for business owners to rule out environmental liabilities on property they intend to buy.

How can business owners learn the life story of a piece of property?

The best way is to do a complete check on the environmental history of the site. These inquiries are known as pre-acquisition site assessments or property-transfer site assessments. Small-business owners usually have site studies done by environmental consultants that have engineering backgrounds in geoscience, chemistry, or hydrology.

"It's becoming an approved way of doing business to have an assessment done on property before you buy it," says Chuck Marshall, an environmental consultant at JACA Corp., in Fort Washington, Pa. "Owners can use the audit results to help them with the innocent-landowner defense" if the property ever is cited by the EPA for cleanup.

A site assessment can consist of as many as three distinct stages. In the



## ENVIRONMENT

first part, the consultant looks for reasons to suspect hazardous waste is on a site. The consultant walks over the site; reviews the site's history through local, state, and federal records; inspects photographs of the area (including any available aerial photos); and looks at geologic data, water-quality studies, past deeds and titles, and site plans or maps. One consultant calls this phase of the study "industrial archaeology."

The consultant also probes the past of nearby sites to see if pollutants on them may have trickled or blown over to the site being studied. This initial study takes two to four weeks.

If the site's history seems suspect, it is necessary to start the second part of the study, taking a closer look at the land. The consultant takes samples of the soil and water underground to test for toxins.

In a chemical analysis, samples may be tested for a broad range of possible substances, or they may be tested to measure the presence of a substance known to be on the site.

If a hazard is found on the site, the study enters its third phase—calculating health risks, designing a cleanup plan, and estimating cleanup costs.

As a site study enters each new phase, the study's cost goes up. However, a more detailed study gives the buyer more confidence in the site's soundness and value.

The consultant should draw up a budget before starting a site study, but it is impossible to predict how or when the work will end, says Alan Feldbaum, a consultant with Environmental Resources Management Inc., in Exton, Pa.

"It's much like divining for water in the desert. You really never know what's there," he says.

Hiring a consultant reduces but does not eliminate the risk of environmental liability, says Hank Klehn, chief operating officer at Dames & Moore, an environmental consulting firm based in Los Angeles. "This isn't an insurance policy. We're all human," Klehn says. "On the other hand, if buyers don't go through one of these investigations,

they have no recourse" if the federal government later files a liability suit.

**S**mall-business owners may shy away from the costs of site studies. A preliminary study runs from \$2,500 to \$7,500 for a typical 10-acre site. But a quality job is worth the money, says John P. Bachner, executive vice president of the Association of Engineering Firms Practicing in the Geosciences, a trade association based in Silver Spring, Md. Bachner says: "There is no room to try to save a nickel here or a dime there. An environmental site assessment may cut your risk by only one-and-a-half percent, but multiply that by three or four million bucks."

Feldbaum says that boring for deep soil samples is rather simple but can cost \$5,000 to \$10,000. "And when you mention ground water, you easily pay \$20,000," he says.

The prospective buyer should judge from estimated risks and cleanup costs whether to abandon the deal or struc-

## Getting The Best Study

These are guidelines to help you ensure a successful environmental site assessment:

**Get good names.** Most site assessments come at lenders' requests. Your lender has a list of reliable environmental consultants.

**Check out several firms.** Get information from the firms themselves. Find out how long they've been in business and the type of work on which they built the company. Many environmental-consulting companies started in specialties such as waste-water treatment or engineering, and most have performed site assessments for only a few years. Don't rule out a firm solely because it has a short history of doing site studies.

**A qualified firm has thorough knowledge of site inspection, document-tracking, the geosciences, cleanup methods, and local, state, and federal regulations.** Get references. Talk to other small-business owners who have been clients of the company.

**Write down the basics.** With your consultant, outline and document the scope of the site assessment. At first, you probably will agree to only a "Phase 1" study, which combines a historical check with basic physical inspec-



PHOTO: CHMT, INC.

**Chemical dyes used in site studies reveal toxic residues.**

tion of the site. Agree that additional work requires a new work contract.

**Commit to costs.** Agree in writing what you'll pay and on what terms. Itemize a budget at the start of the study. Don't authorize further work until you know its cost. If the budget is too high, usually you can scale down the scope of the study.

Most work beyond the initial study—

drilling, boring, ground-water sampling—raises costs quickly.

**Protect the consultant and yourself.** Limit the consultant's liability to negligence. Don't hold the consultant liable for hazards found on the site. Expect to indemnify the consultant for damages arising from the study itself. You may need to obtain right-of-entry for the consultant onto properties next to the inspected site.

**Maintain strict confidentiality.** Regulatory agencies may require reporting of hazardous waste found, but have the consultant agree to notify the owner before reporting hazardous waste. Otherwise, the consultant should confide findings only to parties you specify.

**Avoid pitfalls.** Don't split authority; have only one firm do all the work, from historical research to lab testing to cleanup. A firm that can't do it all is not qualified. Remember that the cost of cleanup isn't final until the job is done.

The consultant's report should be purely factual. No opinions should lie in the findings, because lenders take test results literally. And don't accept hasty solutions for complicated problems.

Above all, the consultant must inform you of all findings as they arise. An expert consultant communicates with the client in language the client understands.



ture the sale to avoid liability. Many real-estate transactions in which toxic waste is a factor still go through because buyers and sellers end up assigning liabilities by agreement.

Jerome C. Neyer, president of NTH Consultants in Farmington Hills, Mich., says that in his experience, about one-fourth of proposed real-estate deals fail because of some environmental problem. "It depends on the severity of the problem," Neyer says. "Underground storage tanks are the most common liability that people find, but they are also the easiest to quantify and clean up."

**B**uyers often can seek protection in the real-estate agreement. The seller may agree to indemnify the buyer for liabilities that arise as a result of the seller's activities in the past.

However, if, as a buyer, you seek protection in this way, Feldbaum says, "you should make sure the party indemnifying you is financially capable" of keeping to the agreement if legal trouble arises. "There are creative ways to manage liability, if you have a mind-set to go through with the sale," he says. "The results [of a site study] can derail a transaction, but it's most beneficial to have exposure to liability out on the table" before the property sale.

Business owners may also expect commercial lenders to require site assessments on land they buy or use as collateral. A technicality of federal law holds lenders liable for environmental cleanup if they appear to hold anything more than a security interest in a Superfund site.

Lenders still are shaken by the \$550,000 judgment issued against Maryland Bank and Trust by the U.S. District Court in Maryland in 1986 because the bank foreclosed and held title for four years to a 117-acre farm in St. Mary's County, Md., that required cleanup by the EPA.

Apart from the normal lending risks, "the risks for environmental problems are so much against the lender, it's on a different plateau," says John J. Byrne, legislative counsel for the American Bankers Association, in Washington, D.C.

"Because the potential environmental liability is so great, banks really have to rethink their general lending policies," Byrne says.

In fact, environmental consultants say, lenders drive the demand for environmental site assessments. A survey of 200 mortgage bankers conducted by Boelter Associates of California Inc. indicates that lenders require site studies in 65 percent of commercial projects



PHOTO: JEFF ZARUBA—FOCUS, INC.

*Testing for toxins, an environmental consultant examines a sample of water drawn from below ground.*

and in 71 percent of industrial projects. Lenders surveyed also predict that by 1993, 85 percent of real-estate projects will entail environmental assessments. The survey shows that 19 percent of these studies find potential liabilities. Asbestos accounts for nearly half of the contamination problems, followed by "contaminated surface and ground water." PCBs, which caused Robert Kilgore's trouble, appear about 12 percent of the time.

"What normally in the past would have been considered insignificant contamination now can cause major financial losses to the acquirer of the property," says L. Edward Wilson, president of Osco Inc., an environmental-management firm in Columbia, Tenn. "Within the last two years, small-business owners have become more alert to environmental issues," Wilson says.

In Congress, Rep. John J. LaFalce, D-N.Y., chairman of the House Committee on Small Business, has introduced legislation designed to limit the environmental liability of lenders in such instances.

Some states have laws to shield property buyers from environmental liabilities and to effect environmental prudence among landowners. For example, New Jersey's sweeping Environmental Cleanup Responsibility Act (ECRA) stimulated \$106 million in hazardous-

waste cleanup in 1989, by requiring certain industrial and commercial landowners to declare their sites pollution-free before selling them. To comply, landowners usually do environmental site studies. If a site needs cleanup, New Jersey requires the seller to post a guaranty bond for the cost and to develop a cleanup plan. Failure to comply with ECRA can cost the landowner up to \$25,000 per day.

New Jersey's regulations add an estimated \$200 to \$500 in "user fees" to real-estate transfers. These fees, which are used to administer the cleanup program, are the reduced rates charged to small-business owners; large companies are charged higher fees.

Although New Jersey law requires "qualified" professionals to inspect sites before transfers occur, the law does not specify what qualifies a consultant to perform a site assessment, says John Trela, assistant commissioner for hazardous-waste programs for New Jersey. "Certain suggestions have been made, and several legislators have discussed what to do," Trela says, "but there's no real licensing requirement."

Trela says the additional 124 people hired by his agency to administer ECRA handle about 7,200 transactions per year. He also says the law has brought about significant environmental improvement in New Jersey.

Connecticut, California, and Illinois also have commercial property-transfer laws aimed at spotting hazardous-waste sites. These laws, however, require only disclosure of hazardous waste on a site; none mandates cleanup before the property changes hands.

**C**omplying with state environmental laws, or voluntarily having an environmental site assessment done, adds a lot of time and expense to an otherwise routine property sale. But the time spent checking out property for environmental soundness could head off disaster for business owners.

Developer Kilgore wishes he had checked out his land sooner. "We thought we would get started on this 80 acres. It would have kept this organization quite busy," he says. "I'm not a big developer. I don't have projects going all over the Delaware Valley or all over Florida. I just wanted to stay in my own back yard."

A business owner can't be too careful when buying land, says consultant Feldbaum of Environmental Resources Management. "We have a 200-year industrial history in this country," he says, "and all but the last 15 years have been without environmental control. We're waking up to a longtime legacy." ■



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## SPECIAL REPORT

# Cutting Costs On The Road

By Julie Candler

**C**ontinuing increases in the costs of acquiring company cars and trucks and maintaining them are prompting fleet managers to search for ways to control expenses.

Many companies, for example, have found full-service maintenance arrangements to be effective management tools, helping firms not only to maintain their fleets but also to track and analyze all the costs of each vehicle. Such arrangements are popular among companies that acquire vehicles through leasing, which appears to be on the increase. Leasing this year is up 6 percent in the fleets managed by the 2,000 members of the National Association of Fleet Administrators (NAFA), the organization recently reported.

A rule of thumb in fleet management, according to Runzheimer International, a Rochester, Wis., firm that examines transportation costs, is: "If something appreciates, buy it. If it depreciates, lease it."

Depreciation can be a major cost in operating a company fleet. According to NAFA, a new car acquired by a company for business use in 1988 cost an average \$12,693 and was worth \$4,311 at trade-in time this year.

NAFA, based in Iselin, N.J., also reported that 20 percent of members surveyed said they plan to acquire more vehicles for their fleets and that company cars are being driven more miles in fewer months than ever before.

"My big factor is mileage," says Mary Haas, fleet manager for W.L. Gore and Associates, the Newark, Del., manufacturer of medical products and Gore-Tex water-resistant fabric. "We lease for two years," she says, "but I have associates whose cars I have to turn in at 18 months, with 35,000 to 45,000 miles on them."

A company's decision on whether to own or lease its vehicles—and how long to keep them—can hinge on the type of lease available and the projected resale values in later years for particular cars and trucks.

"Resale value is one of the most difficult parts of the total car-cost picture to calculate," says Kraig Rodenbeck, a client-services director at Runzheimer. "Professional fleet managers, for this reason, tend to stick to the tried and true. Their philosophy is that a popular

new car in the 1990 model year will be a popular used car in the 1993 or 1994 model year."

A good test of a car's resale value, says auto dealer Kenneth G. Meade, is the residual offered on the car in closed-end leases. The residual is the guaranteed amount that the dealer or leasing company agrees the car will be worth at the end of the lease period. Meade is chairman of the Meade Group,

*Leasing and maintenance arrangements may help your firm control the expenses of operating cars and trucks.*

ference. (If the resale price is higher than the residual, the lessee receives the difference.)

"In purchasing a closed-end lease," Meade says, "the dealer or lease company will tell you what the residual value is. On expiration of the lease, depending on market conditions, you can either give the dealer back the car or purchase the car. ... Either way, you can't lose. If it's worth more on the



PHOTO: T. MICHAEL REZA

Leased vans are used by La Petite day-care centers in 29 states.

a Grosse Pointe Farms, Mich., firm that includes eight Detroit-area car dealerships as well as Meade Leasing Inc. "If a guy believes in the product," Meade says, "he will give you a good residual."

A closed-end lease, or retail lease, holds the lessee responsible only for maintenance and the monthly payments, which generally are higher than those of open-end leases. At the conclusion of a closed-end lease, the lessee can walk away from the vehicle or purchase the car at a guaranteed price.

On the other hand, under an open-end lease, also called a finance lease, if a vehicle is sold at the end of the lease period for less than the residual—which often is the book value on the vehicle at the time—the lessee must pay the dif-

ference. If the resale price is higher than the residual, the lessee receives the difference.

Meade advises managers of small fleets to check closed-end leases. "I would look around and find out what car brings the highest residual value," he says. "Find out what manufacturer stands behind the residual. The amount is determined by the financial source and backed by the manufacturer."

Because of high residual values, Honda Accords fared well in a 15-car analysis of 1990 car costs by Runzheimer. The Accord exhibited the lowest total annual fixed and operating costs: \$5,572. The Accord ranked 11th, however, in a calculation of only operating costs—primarily gasoline, maintenance, oil, and tires. Among the cars with operating costs lower than the Ac-



cord's were the Ford Escort LX, the Chevrolet Cavalier, the Toyota Camry DLX, and the Plymouth Acclaim.

Next to Honda in total annual costs were the Ford Escort, \$5,579, and the Chevrolet Cavalier, \$5,614. The Accord became the lowest-costing car, Runzheimer noted, when fixed costs for depreciation, insurance, financing, taxes, and licensing were included. "The advantages of high resale are quickly apparent," according to Runzheimer.

Better residuals are also realized with the roomier minivans such as the Dodge Caravan, Plymouth Voyager, Ford Aerostar, Mazda MPV, Toyota Prema, and Chevrolet Lumina APV. Many fleets are switching to them from passenger cars. A 1988 Plymouth Voyager that cost about \$12,500 was worth about \$8,800 in a trade-in this past March, according to the N.A.D.A. Offi-

lent Taurus with six cylinders and a four-speed automatic is rated at a combined 23 mpg (20 mpg city, 29 mpg highway). The Chevrolet Lumina's four- and six-cylinder figures too are similar.

"We buy only six-cylinders," says Mary Haas of W.L. Gore. "I think we get a better resale. We used to have nothing but four-cylinder cars. We dropped them because we had so many problems with them. For the amount of miles our people had to put on them, those four-cylinder engines were overworked."

Many fleet managers leave the worry about residual values to others by leasing, and then leave the maintenance management to others through service arrangements. Haas is one such manager, and another is Sheena Franklin, fleet administrator for La Petite Acade-

ondary source. "We think it's better to let the leasing company take care of the resale. They auction them off," she says. "We don't want to be a used-car lot, although our associates can buy the vehicles at the end of the lease if they choose to."

**T**o cut operating costs, Haas' company recently began using the maintenance services of Consolidated Service Corp., in Elk Grove Village, Ill. One of the nation's largest maintenance companies exclusively for fleet vehicles, Consolidated has approximately 175,000 company-owned and leased vehicles under its wing. "Our services are beneficial for companies that operate nationwide or regionally—whenever vehicles are scattered," says Consolidated's president, Pat Starr.

Consolidated's chief competitors, Starr says, are companies such as GE Capital Fleet Services, in Eden Prairie, and PHH Fleet America, in Hunt Valley, Md. They offer full-service leasing, which includes vehicles, repairs, replacement vehicles, and all paperwork. With Consolidated, however, maintenance service is separate from the lease. Thus, if a fleet manager switches lease companies, the service affiliation with Consolidated can continue.

Through its vehicle-maintenance program, Consolidated refers the drivers in its clients' fleets to national auto-repair franchises such as Goodyear and Firestone stores. When maintenance service is performed, the driver has the bill sent directly to Consolidated, which pays a discounted charge for the service and bills the customer. Even with Consolidated's referral fee included, the bill to the client's headquarters typically is less than the customer would pay without belonging to Consolidated's program.

With this system, Starr says, customers "only have to write one check for fleet-maintenance work done all over the country."

In addition, for about \$1.25 to \$1.50 per vehicle per month, a client can have Consolidated provide reports that analyze average and life-to-date information about fixed and variable vehicle expenses. Included are reports on vehicles that are overdue for scheduled maintenance, and reports that show what years, makes, and models are performing more efficiently than others in the fleet.

This type of reporting, says Consolidated's Vice President Ron Starr, can help a fleet administrator make a "qualified decision on vehicles to order based on past operating-cost performances."

Consolidated also offers its Self-Control fleet-management software for



Consolidated Service Corp.'s president, Pat Starr, left, is shown with Goodyear store manager Ray Chuipek in Elk Grove Village, Ill.

cial Used Car Guide, published by the National Automobile Dealers Association. A 1988 Ford Taurus also selling for \$12,500 two years ago brought about \$6,475 in March.

If the cars you're considering offer a choice of either a four- or a six-cylinder engine, you may find the better residuals in today's sixes. They perform better, experts say, yet their fuel-economy figures are almost at the levels of those for four-cylinder cars.

According to the Environmental Protection Agency's 1990-model ratings, for example, a four-cylinder Ford Taurus with a three-speed automatic transmission gets a combined city-highway rating of 22 miles per gallon (20 mpg in the city, 26 on the highway). An equiva-

my Inc., a Kansas City, Mo., company with day-care centers in 29 states. "I read a lot of surveys of the advantages and disadvantages of leasing vs. owning," Franklin says, adding that she doubts she'll ever see evidence that owning is better than leasing. She leases 1,200 full-size passenger vans that are used to transport children from the day-care centers to schools in the morning and back to the centers later in the day. She also leases 150 vehicles for use by local managers.

Haas manages a fleet of 300 vehicles, including Ford Tauruses, Pontiac 6000s, and a few vans and pickups. She leases from Automotive Rentals Inc., in Maple Shade, N.J., and uses GE Capital Fleet Services, Eden Prairie, Minn., as a sec-



## SPECIAL REPORT

IBM-compatible PCs. The price for the basic service is \$4,500. With the software, data on every aspect of operating a fleet, from acquiring a vehicle to disposing of it, can be displayed on a screen in graphic or tabular form.

"Everything is loaded on a diskette they send to me once a month," explains Sheena Franklin of La Petite Academy, who uses Consolidated's Self-Control program. "I can load the data onto my diskette and check on a screen what has been done to each of my vehicles."

For major mechanical work such as transmission repairs, or for collision repairs, Consolidated has identified shops throughout the country equipped to handle such work. Calls for help are accepted 24 hours a day by Consolidated's service coordinators, who are mechanics. Through use of their comput-

the services you need. They give us the support and the statistics, and we can manage our fleet the way we want to do it. I have the flexibility to determine who I'm going to purchase from. I get better service from purchasing than I do from leasing. And it's more beneficial financially. If a company makes money leasing, we can certainly make that with our own leasing company."

Rogers formerly relied on a full-service leasing company to obtain the approximately 600 cars used by Bromar's sales people in Western states, Hawaii, and Alaska. Her firm now is licensed by California to operate its own in-house leasing program, leasing vehicles to the company and channeling profits into the employee-held company's profit-sharing plan.

Her company, Rogers says, is a "purchase-and-disposal client of U.S. Fleet

do that by getting a full-service lease."

Even heavy-duty trucks in Classes 7 and 8 (gross vehicle weights of 26,001 to 33,000 pounds, and above 33,000 pounds, respectively) are being leased through their manufacturers' dealerships. Ron Hickman, president of White GMC Truck Leasing, in Greensboro, N.C., says that about 50 of Volvo-GM Heavy Truck Corp.'s 200 dealers lease WHITEGMC and Volvo trucks. The company offers only full-service leasing, which provides maintenance, replacement vehicles, management services, and financing. "All the customer has to do," says Hickman, "is put a driver in and tell him where to go. That's what full-service leasing is."

Services and fees depend on factors such as the load that the truck carries and the amount of fuel it consumes. Typically, Hickman says, full-service leasing costs 2 1/2 to 3 times more than finance, or open-end, leasing (in which the lessee may have to pay more at the end of the lease if the vehicle's value has declined more than expected). Full-service leasing, however, includes everything from license plates and fuel-tax reports to maintenance.

**F**or Kinetic Concepts Inc., a manufacturer of specialized hospital beds, "leasing works out better" than other forms of fleet management, says Joe Finneran, director of operations. He oversees a fleet of several hundred vehicles obtained from three companies: PACCAR Leasing, a division of the corporation that manufactures Kenworth and Peterbilt trucks; Ryder System's Vehicle Leasing & Services Division; and Penske Truck Leasing Co.

Heavy-duty Class 8 trucks haul beds from the factory in San Antonio, Texas, to distribution centers throughout the country. From there, Class 7 Mid-Rangers from PACCAR deliver the beds to hospitals. The Class 7 and Class 8 vehicles are on full-service leases; the company does its own maintenance on its cargo vans and other smaller vehicles.

"We operate 24 hours a day, seven days a week, so we can respond when hospitals call for special beds," says Finneran. "We treat all of our calls as emergencies. We need to get a bed there as soon as possible. A breakdown is serious. If a truck breaks down on a Sunday, you can't find a garage to repair it. But if you have full-service leasing, you can call and they will send a replacement. All three of our leasing companies have proved reliable in replacing breakdowns."

Leasing or owning vehicles are not the only choices for a company looking for transportation services, of course. A hot trend in the trucking business,



PHOTO © BOB DAEMERICH

**Emergency orders to Kinetic Concepts are handled by operations director Joe Finneran and staff drivers such as Alexander Adams.**

er, they can direct the caller to the nearest repair shop that can handle the job. Consolidated will also negotiate with the repair facility on the work to be done and the price, which is part of the service that the customer receives for the \$20 charged for such a call.

Consolidated's major-mechanical program works well for Bromar Corp., a food-brokerage firm in Newport Beach, Calif. Says the company's fleet manager, Jo Nell Rogers: "If there's any major problem, we pay \$20, and they will take over the responsibility of seeing that the vehicle gets to a good shop [towing charges are not included] and that we get the warranty compensation back from the manufacturer."

Rogers adds "Consolidated has all

Leasing," a San Francisco company. "We buy and sell but do not lease anything through them." Her company dropped its full-service arrangement through another leasing company, she says, because "it was hard to trace what vehicle was involved in the billing." Using Consolidated for service, she says, "has made my life a lot easier. The bills are clear and concise."

In the trucking industry, too, leasing is on the increase. John D. Rock, general manager of the GMC Truck Division, in Pontiac, Mich., says: "The trend is accelerating in light and medium trucks. In addition, dealers and manufacturers together are pushing in the direction of maintenance contracts. Every operator wants to fix costs and can



says Douglas Slack, senior vice president of sales and marketing for Ryder Truck Rental Inc., in Miami, is arranging for distribution services through third-party sources. It is a reason for the growing use of so-called dedicated contract carriers, which supply equipment, drivers, system management, and distribution design. "We expect DCC to grow 12 percent to 15 percent in 1990," Slack says.

There's also a move toward using one company to handle all train, truck, airline, and other transport services for a company. Among the major so-called multimodal companies are Consolidated Freightways, Rochester, N.Y.; American President Companies, Oakland, Calif.; and CSX Transportation, Jacksonville, Fla.

**D**espite the attraction of programs such as leasing, Runzheimer International says it sees a move by companies toward having executives, sales people, and service employees use their own vehicles for business. The employees are reimbursed by their companies on a per-mile or a monthly basis—or a combination of both. Last fall, Runzheimer reported that fleets with employee-

*All the customer has to do is put a driver in and tell him where to go.*

*That's what full-service leasing is.*

—Ron Hickman  
White GMC Truck Leasing

owned vehicles exclusively grew from 12 percent in 1987 to 19 percent in 1989.

In a survey that he completed recently, Kenneth Groh, a publications director at Runzheimer, found a drop in company-owned executive cars. He attributed it to the 1986 tax-reform law, which made it less advantageous to provide cars as a benefit, and to companies' efforts to control insurance costs. Employee-provided vehicles, Groh says, "are significantly more cost-effective for employers than company-provided programs."

The opposite conclusion was an-

nounced recently as a result of a study commissioned by the National Association of Fleet Administrators and carried out by the accounting firm of Ernst & Young. The firm concluded that over the life of a typical vehicle, a company saves \$1,160—the difference between \$9,924 and \$11,084—if the company provides the car instead of reimbursing the employee for business use of a personal car. The survey assumed 85 percent business use and 15 percent personal use of cars by employees.

Ernst & Young also said it found that when a company provides cars to employees (rather than reimbursing employees for business use of their own cars), productivity and morale are boosted, and there's a drop in potential losses from theft and dishonesty.

As long as the prices of cars, trucks, and vans continue to rise, leasing will grow right along with them as a cost-effective way for companies to acquire, use, and dispose of vehicles, many experts predict.

They also say the price of the average passenger car within the next 10 years will be around \$25,000. "If that happens," says auto dealer Meade, "practically everybody will be leasing." ■

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## LEGISLATION

# A Troubling Bill For Business

By Bradford A. McKee

**S**mall-business owners say they feel threatened and confused by the demands they expect will be made of them if the Americans with Disabilities Act becomes law. The problem, business lobbyists say, is that the well-intentioned bill is too vague and open to interpretation. They say that even its built-in protections would amount to a poor defense for smaller firms hit with costly lawsuits.

The disabilities legislation was introduced in 1989 by Sen. Tom Harkin, D-Iowa, and then-Rep. Tony Coelho, D-Calif. They said it was designed to make sure that the 43 million disabled Americans would not be subjected to discrimination in employment, transportation, communications, public access, and other spheres of life.

The legislation would prohibit an employer with 15 or more workers from citing disability as a reason for not hiring a disabled applicant who could perform the "essential functions" of a job. An employer also would have to make "reasonable accommodations" to employ the disabled if doing so would not cause the employer "undue hardship." The determination of "undue hardship," according to the legislation, would be based on a company's size, facilities, and budget.

All businesses, regardless of size, would have to make sure that public facilities were accessible to the disabled. They would have to remove structural barriers and communications obstacles if the changes were "readily achievable." A firm with public facilities, such as drinking fountains, bathrooms, telephones, or parking spaces, would have to make them available for disabled patrons if it could not show that making such accommodations would pose undue hardship.

Ray Stange, owner of Stange Transportation Inc., in Hot Springs, Ark., says hiring disabled workers for some jobs would be no trouble for his company, but, like many business people, he expresses fears



PHOTO © GARY T. THURMAN—BLACK STAR

**Theater owner Derek Hyman wonders how the law would affect his hiring for stand-up jobs operating equipment.**

*Small-business owners fear that vague provisions of the disabilities measure in Congress will prove costly.*

about the bill's "reasonable accommodations" clause. He says that if that clause would require him, for example, to equip his 28 trucks so that they could be driven by paraplegics, it would be a "very impractical and cost-prohibitive adjustment."

Those who support the measure say that such concerns arise from misinformation about how the law would be applied. Nonetheless, many business owners remain uncertain about the measure's possible impact.

In Huntington, W.Va., theater owner Derek Hyman wonders how he would hire workers in wheelchairs for jobs in projection booths or behind concession stands—the places, he says, where the equipment is "designed for someone who can stand up."

Stephen Elmont, president of Creative Gourmets Ltd., a catering and food-service company in Boston, says 4 percent of his workers are disabled, and their jobs are limited by safety considerations. He wants to know how far the legislation would require him to go in accommodating a disabled employee. For example, Elmont says, would he have to lower a 3-foot-high deep fat fryer so that a worker in a wheelchair could operate it? If the fryer were lowered to 18 inches, say, it would be useless to most workers and a "fire hazard" to the disabled, says Elmont. He says a busy kitchen is "just not safe" for a person in a wheelchair.

The legislation's "essential functions" clause is another major worry for business groups. Susan R. Meisinger, a government-affairs lawyer for the Society for Human Resource Management, a lobbying group for businesses, in Alexandria, Va., says this wording would take away employers' rights to define a job's critical tasks. She also says the measure, if enacted, would raise more legal

issues than it would resolve. Business groups want the disabilities bill to state explicitly that when a dispute arises, the employer must be permitted to ex-



press an opinion on the "essential functions" of the job at issue. "You've got to rely on the employer's judgment," she says.

Much of the bill's qualifying language was borrowed from sections 503 and 504 of the Vocational Rehabilitation Act of 1973, which prohibits discrimination by recipients of federal funds. Proponents of the bill added terms such as "readily achievable" after business groups asked for clearer definitions. Still, business leaders don't feel safe. "I don't think you can define everything to the last degree," says Hyman, "but if you don't define the terms, you leave businesses hanging out in the wind. There's no way they can protect themselves."

The bill is built for flexibility and doesn't need additional or more specific protective language, says Justin W. Dart Jr., chairman of the President's Committee on Employment of People with Disabilities. "It's my understanding of the American justice system that employers would always be free to provide their input" in a dispute, he says. "Having been an entrepreneur, my experience with government regulation is that we have always complained about these laws that try to tell the business person what he or she has to do in a certain way. We used to pray for laws that call for common sense."

While debate over provisions of the bill continues, some of the bipartisanship that had surrounded the measure from the outset has begun to unravel.

The bill passed the Senate last year by a vote of 76-8 and has been moving through the House committees with jurisdiction over its various components. But President Bush, who supported the disabilities bill as it was introduced, is resisting an expansion of its provisions that could result from a complex legislative process now under way.

The disabilities bill as proposed by sponsors Harkin and Coelho in early 1989 gave plaintiffs two avenues of action against defendants. A remedy taken from Title VII of the Civil Rights Act of 1964, which protects women and minorities from discrimination, would have provided plaintiffs an administrative hearing before the Equal Employment Opportunity Commission. The bill also permitted a jury trial with the possibility of punitive and compensatory damages. Business objected to the dual-relief provisions because a plaintiff could still sue for damages after an administrative hearing.

The compromise on remedies was reached last September in the Senate version of the bill. With the Bush ad-

ministration's help, business and disability groups agreed that the remedies would be the same as those detailed in Title VII. No provision was made for jury trials. Only limited monetary awards would be permitted. The most common penalty employers would face would be an injunction forcing them to stop discrimination and an order to compensate the plaintiff with back pay. The administration's goal was to limit relief for the disabled to the same relief provided to women and minorities under Title VII. In return, disability groups got broad protection in the public-accommodations area.



PHOTO: T. MICHAEL REZA

*Businesses are "always more at home knowing what the parameters are."*

—Joseph J. Dragonette  
Chicago public-relations executive

Now, however, separate legislation, introduced by Sen. Edward M. Kennedy, D-Mass., and Rep. Augustus Hawkins, D-Calif., would have Title VII permit jury trials and punitive damages. Such changes would apply to the disabilities bill, for it incorporates the civil-rights remedies by general description.

The administration wants relief for the disabled limited to the *existing* relief in Title VII. Some disability groups want the remedies to reflect that title even if it is expanded; others plainly see a regrettable snag delaying consideration of the disability-rights bill.

"The timing of the Kennedy-Hawkins bill is unfortunate in many respects," says Lex Frieden, a disability-rights activist with the TIRR Foundation, the fund-raising arm of the Institute for

Rehabilitation and Research, in Houston. "It has created another complication in what we're trying to do with the disability piece."

Nancy R. Fulco, human-resources attorney with the U.S. Chamber of Commerce, says business cannot accept an open-ended commitment that the disabilities bill's remedies will conform with those in Title VII, whatever future form they might take. Lawmakers cannot anticipate and pre-empt all future changes to Title VII, she says. Existing Title VII provisions "have been good enough for 26 years," she says. "Now why are they suddenly not good enough? Title VII is about conciliation and speedy resolution. These changes [to the civil-rights law] would only lead to more protracted litigation."

Fulco says the administration plans to offer an amendment to the bill that would "mirror" current Title VII remedies, spelling them out and affixing them permanently. If the administration can get such an amendment, the disabilities bill probably would pass quickly. If the administration fails to disassociate the disabilities bill from the fluid civil-rights bill, both measures could be stalled.

Testifying on behalf of the U.S. Chamber, Joseph J. Dragonette, president of Dragonette Inc., a public-relations firm in Chicago, told the House Small Business Committee that business owners want to comply with the bill "for social and economic reasons." Dragonette, who is disabled and runs his 35-employee company from a wheelchair, expressed concern about the bill's possible impact. "Make love, not war, to businesses," he told the lawmakers. "Business is always more at home knowing what the parameters are and not walking in a swamp" of regulation.

Noting that the disabilities bill also could subject employers to compound litigation because it does not pre-empt other federal, state, or local civil-rights laws, Dragonette said that business groups want the bill to rule out multiple lawsuits and penalties for the same alleged offense.

For many small-business people, of course, the foremost concern about the bill centers on compliance costs. Ada Mae Saxton, president of Saxton Air Systems Inc., a Harrisburg, Pa., company with disabled workers among its 35 employees, cautions about requiring firms to make changes they can't afford: "We're all involved with the disabled somehow in business, and it involves some coming together. We can't employ people if we're out of business." ■



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NB-05/90

### BENEFITS

# A No To National Health Insurance

By Roger Thompson

**A**merican business leaders overwhelmingly oppose national health insurance, despite the highly publicized support for such a program from a vocal minority of top executives.

Ninety-four percent of the executives surveyed recently for the Health Insurance Association of America (HIAA) said they oppose the nationalization of health insurance as a means of combating the rapid escalation of health-care costs.

"Those who contend that a nationalized health system has the support of business, and is thus inevitable, need to look again," said Carl J. Schramm, president of HIAA.

Speaking at a Washington, D.C., news conference, Schramm noted that the survey results should counter what he called "a growing sense that American business was jumping on the bandwagon for national health insurance." Chrysler Corp. Chairman Lee Iacocca and American Airlines Chairman Robert Crandall have produced headlines with their statements favoring consideration of a Canadian-style national health plan for the U.S.

"We wanted to find out whether the leadership of big business was ready to go that route," said Schramm. The answer, coming from 100 executives interviewed in January by the Roper Organization, was a resounding "no." Those interviewed were picked from among the nation's 500 largest industrial companies and 500 top service firms.

Among the survey's other findings:

- Health-care costs were cited as one of the five leading factors adversely affecting American business.

- Sixty-six percent said that their corporate health costs rose 11 to 20 percent last year. Seventeen percent said their costs rose 21 to 30 percent.

- Eighty-five percent said health costs could be cut by wider use of prior approval for hospitalization and other utilization-review methods and by greater use of practice guidelines and standards for physicians and hospitals.

- Eighty-nine percent said they have made changes in their corporate health plans in attempting to contain costs.

"More than 60 percent of the executives responding to the survey indicated that the private sector should take responsibility for solving [the] health-care financing crisis, while more than 30 percent support a private-sector approach with some [unspecified] government involvement," said Schramm.

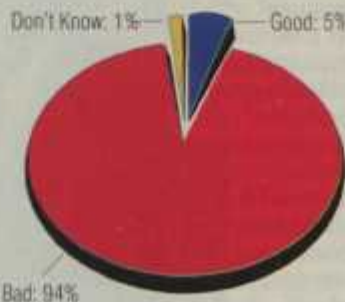
Results of the survey indicated that executives are optimistic about their ability to control their companies' health expenditures, primarily through greater use of managed care, Schramm said. "There is great enthusiasm and hope for managed care."

Managed care involves a range of cost-containment features, such as physician service discounts through health-maintenance organizations (HMOs) and preferred-provider organizations (PPOs), mandatory second opinions before surgery, and case management for the chronically ill.

"Managed care will be the health-care issue of the '90s," said Schramm. He maintains that once it grows beyond "infancy," it could "revolutionize health-care delivery."

Richard Breault, a group vice president of the U.S. Chamber of Commerce, told the news conference that the HIAA survey confirmed what the Chamber's own informal membership surveys had shown in the past. Said Breault: "Our members are strongly against national health insurance." **NB**

### National Or State Health Insurance—Good Or Bad Solution?



1990 CEO Survey, Roper for HIAA

**Top executives of major U.S. companies overwhelmingly oppose nationalizing health insurance.**



# Small-Business Computing

*What's new and useful about an increasingly essential business tool.*

## WORD PROCESSING

### Help For Typists With A Pain In The Eye

Software-publishing entrepreneur Ken Skier is fast becoming an eye saver for laptop-computer users. Two years ago Skier's home-based firm, SkiSoft Publishing Corp., scored a big hit with the computer-lugging set with the **No-Squint Laptop Cursor**, a \$39.95 program that allows users to control the size and blink rate of their word-processing program's cursor. Standard cursors can become almost invisible on laptop computers' liquid-crystal-display screens under many, if not most, lighting conditions.

When several No-Squint buyers wrote Skier that they couldn't see the small letters on their laptop screens either, Skier published **Eye Relief**. For those who suffer from eye fatigue, those small, sometimes fuzzy, letters make working on computers more tiring than it should be. Eye Relief may be the answer.



PHOTO: CHRISTOPHER MUGNANIAN

**The eyes have it**—Eye Relief, that is—a large type word processor that helps to relieve tired eyes.

Unlike No-Squint, which is a utility that runs in connection with a conventional word processor such as Word Perfect or Microsoft Word, Eye Relief is a word processor itself.

Eye Relief taps a computer's graphics capabilities to build letters over an

inch high. It also allows users to increase the spacing between letters and between lines. It employs the standard ASCII format, so files created under Eye Relief can be recalled and edited under standard word-processing programs.

Eye Relief does not have all the bells and whistles of many of the standard programs, but it does not lack so many features that the user will be handicapped.

And speaking of handicaps, Eye Relief is not just for laptop users. If it is powered up on a desktop model, it can help even those with eye strain or visual impairments to read the screen.

Eye Relief, which costs \$295, runs on an IBM PC or compatibles with DOS 2.11 or higher, 512K or more of RAM, one 3 1/2-inch or 5 1/4-inch floppy-disk drive, and almost any graphics display (CGA, EGA, VGA, or Hercules). Order from SkiSoft Publishing Corp., 1-800-662-3622.

—Al Holzinger

## NEW DIRECTIONS

### Keeping Your Business Wits About You

Xerox has created a software subsidiary called Decisus that has just introduced **Business Wits**, a program to help executives make business decisions more easily than they could with spreadsheets.

The central program has 118 preprogrammed business techniques, and many others will be available through special "libraries." The first three libraries have been released. They cover advanced financial applications, banking and investment, and statistics and sampling. Eventually, the company expects to release "hundreds" of these libraries.

Gale Grismer, president of Decisus, says, "Even computer novices can learn to operate the software in much less time than they would [spend] in learning to use other decision-support products."

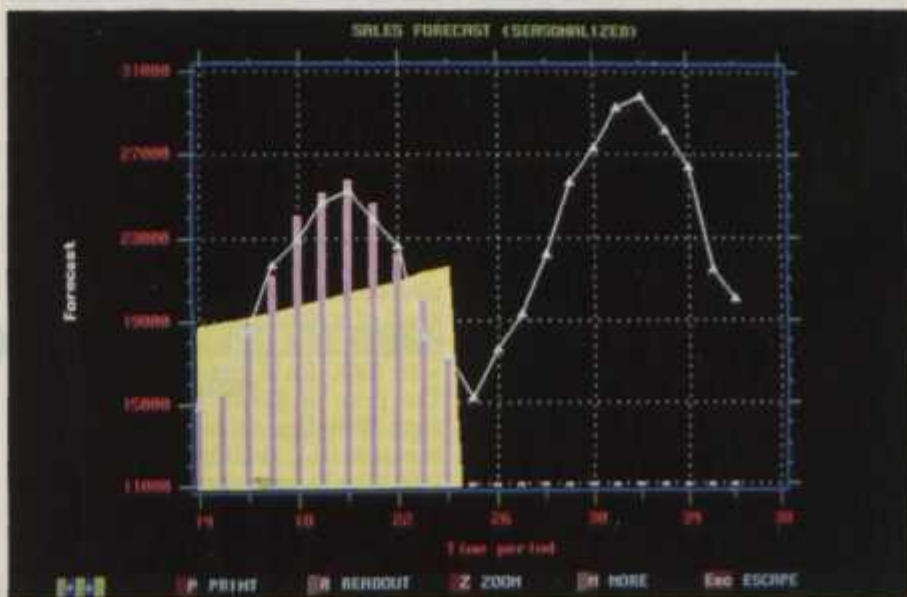
If the program works as Grismer says, it will offer a simple fill-in-the-blanks set of questions for your variables. Then you can try out alternative solutions to problems in pricing, forecasting, finance, inventory, quality con-

trol, leasing, valuation, investment, etc., based on the models the program creates. That's a lot for a base list price of \$695. The program works on an IBM or compatible with 640K RAM and a

hard-disk drive. Decisus is at 9938 Via Pasar, San Diego, Calif. 92126; phone (619) 530-4800, or for direct orders, call 1-800-622-6543.

—Ripley Hotch

**Business Wits:** Software for executives who don't want to be programmers.





## NEW DIRECTIONS

### A Little Help From Their Friends

IBM and Motorola have created a joint venture called Ardis to offer their radio-terminal network to other companies. The small, hand-held terminals allow mobile workers to tap directly into company databases, as if they were directly wired to a network.

Motorola designed the network for IBM in 1983, and it is used by 16,000 IBM service personnel. With more than 8,000 stations, the network is huge.

The fact that it is already running and tested means that small businesses can take advantage of it without incurring the prohibitive costs of installing all those transmitters. Jack Blumenthal, president of Ardis, says that it has the most potential for small service businesses that need to find out, for example, whether a part is available in the warehouse, or even how to troubleshoot a problem. "It helps in getting the most out of someone who is not the best-trained worker," he says.

A user with a terminal can run any program that would be run on a network, or even applications that now require a telephone connection, such as electronic data interchange for inventory control and reordering. "Information is authority," says Ardis' chairman, Gordon Comerford, "and this network empowers the person on the front line with useful information."

Ardis will provide the shared network time at a cost of \$100 to \$150 a



**Ardis offers the advantages of a network without wires. Even standing inside a building, this user is directly connected to the company's main computers.**

month per terminal—an investment that both Blumenthal and Comerford say can be recouped easily in improved service and increased efficiency. Sears routes its service people with it, but

both executives say that a small company can achieve the same efficiency.

If you are interested, you can contact the company at 1-800-662-5328.

—Ripley Hotch

## CREATIVITY

### Before You Begin The Great American Novel . . .

Now there's a creative-writing program that will teach you as much as anyone can about how to be a novelist.

**WritePro** was created by Sol Stein, a successful novelist himself and editor for successful novelists. Stein says he has been astonished at the number of people in business who harbor the secret desire to become novelists. It may be that they only want to write detective fiction, but they're ordering **WritePro** in large numbers.

The program is basically a tutorial with exercises—and that's the secret to it—exercises. No great writing happens by accident or without sweat. **WritePro** won't sweat for you, any more than a weight machine will lift itself for you. But if you're willing to work, this program will train you the right way. It's rather like a nagging tutor that you cannot put off (unless you turn it off).

It takes you painstakingly through the steps needed to create plot, characters, description, and all the other details that great writers use. It reminds you (often painfully) of the basic

groundwork you need to do if you want to create a novel that has the sense of reality that a good novel should have.

**WritePro** is wonderfully straightforward in operation. Load it, start it, and right away it starts asking you questions that will help you form your plot and characters. And that's in the first lesson. As you go, you will be creating the outline, and much of the words, of your story. Since it is PC-based, you can go back and repeat sections, take as long as you like over any one lesson, and ask for help at your own pace. For this kind of work, personal computers are great.

The program will work for writers other than aspiring novelists; the principles of good writing are good for all kinds of writing. It will run on the most basic of IBM or compatible systems with 256K RAM and DOS 2.0 or later. The price is \$39.95 plus \$4 shipping, from **WritePro**, 43 Linden Circle, Scarborough, N.Y. 10510; phone (914) 762-1255. The basic program plus two more lessons are included in an upgraded package called **WritePro 1/2/3/4**, priced at \$79.95 plus shipping.

—Ripley Hotch

## ACCOUNTING AND TAX PLANNING

### An Easy-To-Use Bookkeeping Program

Publishers of most software for managing personal finances claim their products will fill the needs of small businesses. One such program—backed by a limited guarantee from its publisher—is **MoneyCounts 6.0**. If you basically run your business out of several checking and savings accounts and with a few credit cards, **MoneyCounts** should meet your bookkeeping and tax-planning needs.

If your computer IQ is average or above, you probably could load and use **MoneyCounts** after no more than five minutes of reading. In fact, two of the program's strengths are its ease of use and its forgiving nature when you make inevitable data-entry mistakes.

**MoneyCounts** generally resembles its competitors in that it lets you set up accounts, budget the activities in each, record actual transactions, and print reports that compare expected and actual use. Like most others, **MoneyCounts** also allows you to earmark transactions with tax implications to help you make estimated tax payments or file a year-



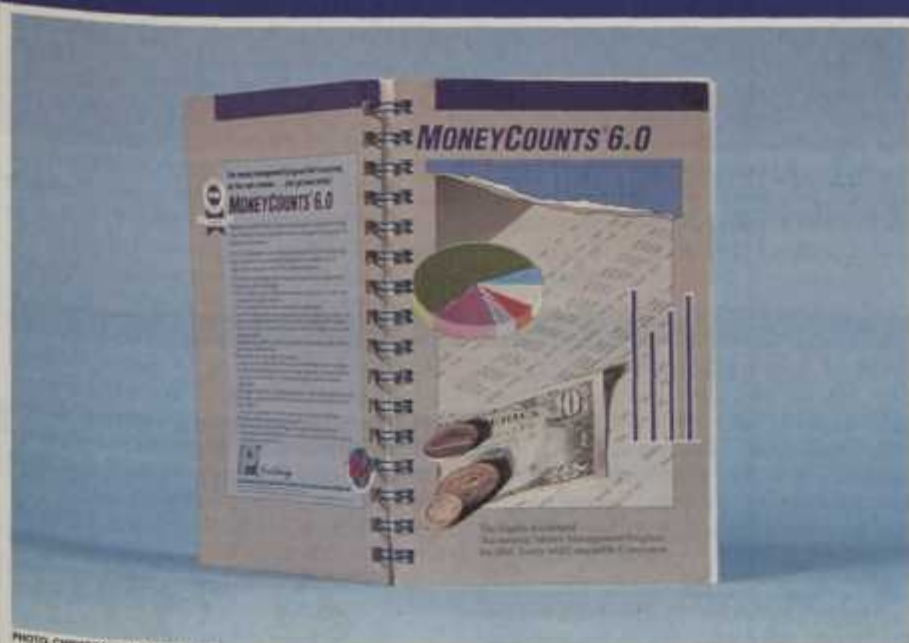


PHOTO: CHRISTOPHER MUGLIANAHAN

**MoneyCounts 6.0** is an inexpensive program that nicely handles bookkeeping and tax-planning needs.

end return. But MoneyCounts stands above its competitors in several ways. One is a routine that analyzes your data and suggests where to look for errors when your checkbook does not balance. Another is its ability to display financial analyses in the form of high-quality line and pie charts.

And finally, there's the matter of money: The program carries the amaz-

ingly low price of \$35, and its publisher offers a 30-day, money-back guarantee.

MoneyCounts runs on an IBM PC or compatibles with DOS 2.0 or higher, 512K or more of RAM, and two 5 1/4-inch floppy-disk drives or one floppy and one hard drive.

Order from Parsons Technology, 1-800-223-6925.

—Al Holzinger

## FOLLOW-UPS

### More On Networks

Our story about low-cost networks for small businesses turned up yet another firm that itself is a small, new company in PC networking. ConnectWorks puts out a network product called **Chain-Link**, which it says links as many as 16 PCs with standard telephone wire. It uses a switching unit for file exchanges rather than add-in boards. The eight-user version is \$495; 16 users, \$795. From ConnectWorks, P.O. Box 497, Wrightsville Beach, N.C. 28480; (919) 256-2366.

### Sales-Oriented Software

A question from Kathy Bower of Devant Ltd., in our March column, uncovered several other solutions for her search for sales-oriented software.

Two come from Easy Do Co. of Smethport, Pa. Owner James Herzog says a program called **M.A.C.** will do everything Devant is looking for: "It's good for a small manufacturer with fewer than 20,000 accounts. It will keep track of accounts, generate invoices and UPS labels, and do sales analysis." The M.A.C. phone number is 1-800-351-

4225 (in California, 213-672-8700). Prices range from \$1,500 for a single PC to \$2,500 for several. Easy Do has software called **Time-Record** that generates reports on employee hours, production information, and project hours. It replaces an automatic time clock or manual system, and it allows you to track precisely how many hours go into a job. It costs \$599, and Herzog says it works well for small firms whose employees use time cards. Easy Do's phone number is (814) 887-2331.

Barry Lederman of CharterHouse Software, Westlake Village, Calif., (818) 991-5077, says his company's **CharterHouse Accounting System** tracks sales information within a complete accounting system. It has 14 modules, ranging from \$700 to \$1,700 each.

## HELP FOR READERS' QUESTIONS

### Replacing The Toner

I am seriously considering purchasing a computer dealership that includes printers, a variety of software, and, of special interest, training on the remanufacturing of toner cartridges. Since the market for these cartridges looks potentially large, could you comment on

the subject of remanufactured toner cartridges?

Connie Simeri  
Granger, Ind.

The market is indeed large, and it is bound to get larger as laser printers come down in price. (Hewlett-Packard, the best-known and biggest manufacturer of laser printers and a price leader, recently came out with a model street priced down to nearly \$1,000.) Printer cartridges are expensive, and users are looking for ways to cut the cost. Remanufactured cartridges can cut the cost significantly and offer small businesses a lucrative niche. Our major concerns with these cartridges are the way the remanufacturing is done and the number of times it is done. Many processes involve drilling a hole in the cartridge to insert more toner.

A number of printers are extremely sensitive to toner leaks. The drums of cartridges are not meant for use beyond one refill, but some remanufacturers claim they can refill three or four times. If you get angry customers whose laser printers are streaking because of your cartridges, you'll have trouble building a business.

Talk to your potential vendor very carefully, and insist on interviewing a number of customers in the field who have used cartridges remanufactured by that vendor's process. If those customers are happy, you probably have a winner.

### Bar-Code Equipment

I would be grateful if you could send me details of a computer program/package that will print UPC bar-code labels. We are using an IBM PS/2 with a 70MB hard drive and a laser printer.

Gillian Ecker  
Omnimark International  
Cherry Hill, N.J.

You are right to be looking into this technology. It isn't new, and it's relatively simple, but it has broad uses.

You can use it to track inventory, track documents on microfilm, follow processing of materials in factories, record billing time, and even to replace time clocks.

For a list of vendors offering bar-code equipment, write to Automatic Identification Manufacturers Inc., 1326 Freeport Road, Pittsburgh, Pa. 15238; or call (412) 963-8588. AIM will direct you to vendors of vertical packages that might be specific to your industry.

Inexpensive, PC-based bar-code printing and reading equipment is offered by, among other companies, Worthington Data Solutions, 417-A Ingalls St., Santa Cruz, Calif. 95060; or call 1-800-345-4220.



# Direct Line

*In which experts answer our readers' questions about starting and running their businesses.*

By Meg Whittemore

## RECREATION

### The Bowl Game

I want to open a bowling alley in my hometown. Are there associations or franchises pertaining to this type of



ILLUSTRATIONS: DAVID ALLEN

business? I need information on planning, construction, and equipment. M.P., Blakely, Ga.  
(Similar question from D.F., Augusta, Ga.)

There are no bowling franchises, but

there is information available to help you get started, says Lance Elliott, executive director of the National Bowling Council, in Washington, D.C. The council's members include equipment manufacturers, bowling associations, and owners of bowling centers. ("Bowling alley" is being replaced by the term "bowling center," Elliott says.)

For general information on the industry, write or call Elliott at the National Bowling Council, Suite 504, 1919 Pennsylvania Ave., N.W., Washington, D.C. 20006; (202) 659-9070. For free information on equipment needed to start a bowling center, you can contact manufacturers such as AMF Bowling, 8800 AMF Drive, Mechanicsville, Va. 23111; (804) 730-4000; and Murray International, 407 W. Rosecrans Ave., Gardena, Calif. 90248; (213) 770-3644.

## LIVESTOCK

### Ostrich Nest Egg

I am interested in starting an ostrich farm, and I need some information on how to get started. L.C., Owings, Md.

Ostriches are native to South Africa, which does not export live ostriches or ostrich eggs, only ostrich "products." The demand for such products—distinctive leather for boots, unusual feathers for costumes and dusters, and meat that's low in cholesterol—has always



exceeded supplies in the U.S., says Susan Cook of the American Ostrich Association.

The organization has 600 members—most are ostrich breeders—and publish-

## THIS MONTH'S MOST-ASKED QUESTION

### Small Firms Show Interest In Exporting And Importing

Among the questions we receive each month, typically one topic or another emerges as foremost in readers' minds. Beginning in this issue, I'll address in greater depth that entrepreneurial topic that has generated the largest number of questions.

Recently, the explosion of democracy and the movement toward free enterprise in Eastern Europe have prompted small-business owners from Maryland to Hawaii to ask Direct Line for information about establishing trade with other countries around the globe.

For an overview of the historic changes and opportunities in the nations that formed the Communist bloc, see the article "Eastern Europe: A New Frontier," in our April issue. It includes a list of information sources on this trade generally and on specific countries.

On the general subject of importing, Eugene Milosch, president of the American Association of Exporters and Importers, says, "One must be careful because there are quotas involved." Imported products are also subject to regulations on packaging, labeling, and weight.

U.S. Customs Service officials take those regulations very seriously, Milosch says: "If you do not follow the steps for importing to the letter, your goods may be embargoed at customs."

To identify suppliers in foreign markets, Milosch suggests you visit countries where you may want to do business, contact agents there, and expect to pay for their services.

Milosch, who will provide information without charge, can be reached at the American Association of Exporters and Importers, 11 W. 42nd St., 30th Floor,

New York, N.Y. 10036; (212) 944-2230.

To export products from the U.S., start with the export programs and overseas-marketing information available through the many district offices of the International Trade Administration (ITA), a part of the U.S. Department of Commerce. For information on the district office nearest you, contact the U.S. International Trade Administration, U.S. Department of Commerce, Washington, D.C. 20230; (202) 377-3808.

For basic information on opportunities in Eastern Europe, you can call the Commerce Department's new Eastern Europe Business Information Center at (202) 377-2645. Members of the U.S. Chamber of Commerce can get help from the Chamber's new East European Trade and Technical Assistance Center at (202) 463-5482.



Meg Whittemore



es a quarterly magazine, *The Ostrich Report*. The latest issue contains a special section on how to get started in the ostrich business.

Tom Broome of Panola, Texas, says he started an ostrich farm as a way to diversify his cattle business. He sells chicks for \$2,500 each, exports the meat to European markets, and sells the hides for leather here and abroad.

For basic facts on the industry, contact Susan Cook at the American Ostrich Association, 601 Bailey, Fort Worth, Texas 76107; (817) 877-1300.

## ADDRESSES

### Federal Contracts

How can we obtain a copy of the Department of Defense's annual *Small Business Subcontracting Directory*?  
M.B., San Diego

It is available free from the Small & Disadvantaged Business Office, Room 2A-340, The Pentagon, Washington, D.C. 20301-3061; (202) 697-1688.

### Recycling

I would like to have the address of *Recycling Times* magazine.  
J.W., Tyler, Texas

*Recycling Times*, \$95 a year, is a bi-weekly from the National Solid Waste Management Association, 1730 Rhode Island Ave., N.W., Suite 1000, Washington, D.C. 20036-3196; (202) 861-0708.

## SERVICES

### Automotive Details

I am interested in setting up a full-service car wash for interior and exterior cleaning. I need information on



where to start, manufacturers of car-washing systems, and the names and addresses of any organization that might help.

J.W.W., Winchester, Va.  
(Similar questions also from D.P.M., Danville, Calif., and T.G., Newport, Ark.)

The International Carwash Association will send you free information on how to start a full-service car wash, the equipment needed, overall operating costs, and other general facts and figures on the industry.

For information, write or call the association at One Imperial Place, One East 22nd St., Suite 400, Lombard, Ill. 60148; (708) 495-0100.

## RETAILING

### Especially For Children

I want to open a bookstore specifically for children, and I need information on start-up costs, suppliers, profit mar-



gins, and books on consignment.

W.H.M., Oakdale, Minn.

(And similar requests from D.G., Yakima, Wash.; M.H., West Hartford, Conn.; J.W., Washington, D.C.; and C.M., Lake Mary, Fla.)

For information on starting a bookstore, contact the American Booksellers Association.

The association will send you membership information, a copy of the monthly *American Bookseller*, and materials on the association's school for booksellers, its annual convention, and its trade shows.

Write or call the American Booksellers Association, 137 W. 25th St., New York, N.Y. 10001; (212) 463-8450.

For information on the publishers of children's books, contact the Children's Book Council, P.O. Box 706, New York, N.Y. 10276-0706; (212) 254-2666.

### Coffee Shopping

I am interested in starting my own retail/wholesale business selling specialty coffees. What sources and organizations do you recommend that I contact to understand how to get started?

A.S., Puunene, Hawaii

The customer-service department at the Coffee Development Group can supply you with consumer information, marketing studies, and promotional and au-

diovisual training materials. You can contact the organization at 1400 I Street, N.W., Suite 650, Washington, D.C. 20005; (202) 682-4034.

A publication that might prove useful is the *Tea and Coffee Trade Journal*. The monthly publication costs \$18 for a one-year subscription and contains articles on coffee- and tea-producing countries, coffee mills, and information on the technical side of producing coffee. For more information, contact the journal's editor, Jane McCabe, at 130 W. 42nd St., New York, N.Y. 10036; (212) 391-2060.

## WOMEN IN BUSINESS

### Sources And Resources

I would appreciate any information on financial/advisory resources for women starting their own businesses.  
L.W., Midvale, Utah

The Office of Women's Business Ownership (OWBO) at the Small Business Administration is a good place to start. The OWBO conducts national seminars, conferences, and trade missions, and it supplies information resources to business owners and prospective entrepreneurs. The address is 1441 L Street, N.W., Washington, D.C. 20416; the phone number is (202) 653-7954.



Another good source of free information is the National Association of Women Business Owners, 600 S. Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465.

## HOW TO ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at \$3 a copy. To order, write to the Circulation Department at the address above. **■**



# To Your Health

*Managing well includes managing your own health; here is advice to help you do that better.*

By Phyllis M. Barrier

## It's Not The Potato, It's The Sour Cream

That old adage, "a calorie is a calorie," appears not to be true. There is now good evidence that calories don't count equally.

We've known for a long time that different kinds of nutrients vary in the number of calories per gram (the weight of a paper clip). Protein or carbohydrate has four calories per gram, and fat has nine calories. The only other way we get calories is from alcohol, at seven calories per gram. So, dieters have been warned to stay away from oils, butter, and other foods high in fat, as the best way to reduce their total caloric intake.

Now, though, it seems that the kind of calories you consume may be as important as the total number.

When we eat calories in the form of fatty foods, researchers now say, it's much easier for our bodies to turn those calories into wide hips and bulging tummies than if we eat the same number of calories in the form of carbohydrates (bread, potatoes, and other starches).

It appears that if you eat 100 extra calories—that is, 100 calories more than you burn up in a day—and those calories come from fat, you will store 97 of those extra calories as body fat. If, however, you're eating low-fat foods, and you eat 100 extra calories from carbohydrates, your body will store 93 of them in the muscles, as the fuel called glycogen, or, if there's no room there, 77 of them as fat.

Converting carbohydrate calories into fat takes so much energy that 23 percent of the calories are used up in the process. Only when we eat huge amounts of carbohydrate is it converted to fat. In a study done at Harvard University on thousands of nurses, the total number of calories eaten did not correlate with how overweight a nurse was; instead, the number of "fat calories" did.

In another study, 28 women ate a high-fat diet (40 percent fat—a typical

*Phyllis M. Barrier, M.S., R.D., is nutrition coordinator for a Washington-area health-maintenance organization.*



PHOTO: ©STEVE PAYNE—LIPPHOTO

**When you're buying meat, make sure it's lean and well-trimmed, because the calories lurking in fat are even more treacherous than you thought.**

U.S. diet) for four months. They then switched to a low-fat diet for another four months, with carbohydrates replacing the fat. "The women measured an average 1 percent lower in body fat even though they weighed the same," says Joan M. Conway, a U.S. Agriculture Department chemist who conducted the study.

In other words, you really are what you eat.

All of this new data points one way: If you want to lose weight or reduce your percentage of body fat, eat less fat and more carbohydrate.

So how do you do that? By getting away from the widespread idea that carbohydrates make us fat. How many times have you seen a dieter eat the hamburger patty and leave the bun? Or eat the steak and leave the potato? It would make more sense to eat the bun or potato, but only half the meat. We should also make sure the meat is lean and well-trimmed, and has been grilled or broiled rather than fried. We should choose fish and poultry (without the skin) more often.

Dairy products make up another big source of fat. Choose skim or 1-percent products to reduce fat and calories. Try ice milk (much better-tasting now than what you may remember), and the tub margarines that can be spread more thinly than butter; or better yet, learn to eat bread, toast, pancakes, and vegetables without added fat.

Eat more pasta, but skip the fatty sauces made with cream and butter and instead choose tomato-based sauces or wine-based sauces. Eat sandwiches that are made with tasty bread and go light on the meat or cheese filling. Rather than a thick cold-cut sub, choose a turkey sub (only one to two ounces of turkey) with lots of lettuce and tomato, and just a little mayonnaise.

Eat more vegetables and fruits—except, that is, when they are fried, creamed, "cheesed," or made into a pie with a fat-laden crust. Remember that fat is hidden in many foods, such as nuts, chocolate, pastries, avocado, and cheeses. Be careful about adding fat to foods that are otherwise low in fat: Salad dressings and mayonnaise, for example, are almost 100-percent fat. (You can cut fat calories significantly, however by switching to reduced-calorie versions.)

You can also reduce fat significantly by modifying recipes. Usually, the fat prescribed by a recipe can be cut by one-third without damaging the dish.

Last but not least, check the labels for the number of grams of fat in similar products. As an example, low-calorie frozen dinners that are under 300 calories can vary from under 15 percent to more than 50 percent of calories from fat.

It is absolutely possible to enjoy the taste of eating right, and be thinner, healthier, and happier doing it. **B**



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Paul N. Strassels

## HOME OFFICE

### The Deductible Life, Working At Home

Thanks to a recent decision by the U.S. Tax Court, those who work from their homes may eventually enjoy substantial tax breaks that previously were not available to them.

The Internal Revenue Service and the Tax Court have long maintained that you could deduct office-in-the-home expenses only when your home office was your principal place of business—the place where goods and services were provided to customers and clients, or where income was produced.

The Tax Court says that rule no longer applies—if your home office is essential to your business, you spend a substantial amount of time working there, and you have no other office space available to you.

The case in question involved an anesthesiologist who worked at several hospitals and used his home office to keep his books, prepare for patients, consult by phone, satisfy his continuing-education requirements, and so on.

In a rare move, the IRS issued a public statement saying it would not accept the Tax Court's ruling. It asked the court to withdraw the decision; if the court does not, the IRS probably will appeal. In the meantime, taxpayers must adhere to the old rules.

Even if the new ruling is upheld, you still must meet the strict requirements for writing off expenses associated with a home office. Essentially, your at-home business has to be profitable, and



PHOTO: © DAVID FRAZER—THE STOCK MARKET

**Under a Tax Court ruling, tax breaks may get better for many who operate a business from home.**

the office space must be used regularly and exclusively for business purposes.

The Tax Court's ruling extends to three other points that could mean money in your pocket:

- Tax law does not require that you rent office space. You can convert an extra bedroom or your basement into a business setting.
- You can use a home office whether you operate as a sole proprietor or a corporation.

● Self-employed individuals who have an at-home office as their principal place of business can deduct all the operating costs of a car when it is driven from one place of business to another, including the day's first trip from home and the last trip back. (Those employed outside the home, however, cannot deduct the costs of the day's first or last trip—even if it's between home and a customer's office—because it is personal commuting, the IRS says.)

## BENEFITS

### The Tax-Deductible Physical Is Back

When Section 89 of the Internal Revenue Code was on the books, the IRS ruled that company-paid physical exams for selected executives would not qualify as a tax-free benefit. Instead,

the cost of the physical would have to be included in each executive's gross income. The only way for physicals to be tax-free would have been if they were provided to all employees.

But now Section 89 is history, and the old rules are back in effect. As a result, a firm can purchase a medical-reimbursement insurance policy covering one or more people in the company. When the policy covers a physical, the executive receives no taxable benefit.

Even if you are an executive, you could find yourself out in the cold for any number of reasons.

The question is, will you be taxed on job-placement assistance paid by your former employer to help you find a new job?

In 1989, the IRS ruled that the cost of job-placement services offered to a former employee is taxed to the recipient and is not a working-condition benefit excludable from gross income.

But that thinking may be changing. Reportedly, the IRS chief counsel's office may revisit the issue, which probably means a ruling altering the previous IRS position is forthcoming.

### Help In Finding A New Job

It's never pleasant to think about it, but workers at all levels lose their jobs.



Paul N. Strassels, president of Money Matters Inc., Rapid City, S.D., is a tax-law specialist and financial adviser.



## TAXES

## Your Last Known Address

You no longer have to officially notify the IRS when you move. For years, the IRS said that the address on the tax return that it was examining at the time (which might not be your most recent return) was the only address it was required to use when it tried to notify you—unless, of course, you had sent official correspondence to the tax agency notifying it of a new address. Absent that, you could become liable for deficiencies and not even know that you had tax problems.

That has changed. The IRS now says that the address it will use is the one on your most recent tax return.

## The IRS As Collection Agency

Those who are delinquent on their student loans face collection action from the IRS. The Department of Education says it has asked the IRS to go after more than 100,000 defaulted government-guaranteed student loans, averaging \$3,000 each. The IRS says it will tap into tax refunds to collect the money.

The IRS has been involved in similar programs for years, primarily collecting past-due court-ordered child support.

## Audit Rights

If and when you are notified by the IRS that your tax return has been selected for audit, your first step should be to meet with a tax professional who can assist you through the audit process. It is almost never a good idea to approach an audit without representation.

Some people are confident and well-prepared, however, and can meet the challenge to their returns on their own. Still, what happens if, during the course of an audit, a taxpayer finds that he or she is in too deep?

In that instance, the taxpayer should tell the auditor that he or she wants to consult with an accountant or other tax adviser, and that the audit must be suspended. Thanks to the Taxpayers' Bill of Rights, that is exactly what will happen.

## The Hidden Trap If You Simplify "Kiddie Taxes"

In the mid-1980s, Congress grew weary of hearing about rich parents who transferred savings and other investments to their low-tax-bracket children, thereby reducing the family's overall tax burden on the interest, dividends, and capital gains earned by those assets. This tax-saving tactic was blamed for undermining the general public's perception of fairness in the nation's

tax law. So Congress imposed the "kiddie tax," which requires children under age 14 to pay at their parents' highest tax rate on all unearned income over \$1,000.

The idea may have been sound, but the implementation has become a nightmare. In an effort to simplify reporting requirements, Congress decided to let parents include their youngsters' income on the parents' own return. After



**You may have overpaid your taxes if you included a child's unearned income on your return.**

all, most parents wind up paying their children's taxes anyway.

If you accepted Congress' offer when you filed your tax return for 1989, chances are you overpaid your taxes. By including your young children's unearned income on your return, you will have increased your adjusted gross income, which means a reduction in your deductions for individual retirement accounts, medical costs, and casualty losses. What's more, you may have increased your state and local income taxes too, because they are based on your federal income.

OK, so you may have made a mistake. Why don't you just go back and file an amended return? You can't. The IRS says the election to report your children's income on your return is irrevocable once you file that return. Perhaps next year you'll treat your taxes—and your children's—a bit differently.

## Deducting Legal Fees

Personal legal fees generally are not deductible, but there are exceptions. In a recent case, a teacher's qualifications were challenged, and unless he success-

fully defended himself, he would lose his job. When he tried to deduct what he paid his attorney for representation before the school district, the IRS objected. The IRS was wrong, according to the U.S. Tax Court. His deduction was perfectly legal as a job-related employee business expense.

## The Hazard Of Prepaying A Loan

The next time you are offered the opportunity to pay off a loan early in exchange for a reduction in the amount you owe, consider the tax effect before you write your check. Here's what happened to one taxpayer who tried to take advantage of a "deal." He owed \$33,000 on a long-term, low-interest loan, which he was paying off according to its terms. The bank offered to let him buy out the loan for \$25,000 if he would pay it off immediately. (The lender wanted the low-interest loan off its books.) He took advantage of the opportunity.

What initially looked like an outstanding money move developed a serious tax side effect. The IRS took the position that the \$8,000 that was forgiven by the lender resulted in an economic benefit and became taxable income to the taxpayer. The U.S. Court of Claims agreed.

Overall, the taxpayer did come out ahead. He saved himself \$8,000 on the loan but had to pay tax on his savings. If he was in the 28-percent bracket, the tax would cost him \$2,240, for a net savings of \$5,760.

## RETIREMENT PLANNING

## Feathering Your Nest

The more you salt away today, the more comfortably you will live in retirement. If you are eligible to contribute the maximum to your tax-deferred retirement plan, the question is what the amount is this year. The answer depends on the type of plan you have. The amount is adjusted upward every year to reflect inflation. This year's inflation adjustment is 4.8 percent.

Here are the numbers for 1990:

- Participants in defined-benefit plans are limited to a benefit of \$102,582 annually.
- If you have a 401(k) deferred-compensation plan through your job, the maximum deferral is \$7,979.
- IRAs are still pegged at \$2,000.

In addition, there are new threshold amounts for the 15-percent excise tax on excess distributions, employee stock-ownership-plan (ESOP) distributions, what constitutes a highly compensated employee, and employer contributions to a simplified employee plan (SEP). Check with your retirement-plan specialist for all of this year's details. ■



# For Your Tax File

*What you need to know to keep taxes from overtaxing you.*

By Gerald W. Padwe, C.P.A.

## CASUALTY LOSSES

### A Change In Deductions

Casualties normally mean economic disaster, but they need not spell tax disasters as well. For example, suppose you own a second home that you have rented out for most of every year for the past decade. Normally, you do not even claim a loss on the property for tax purposes since it has always done just what you had hoped—generate a true economic profit. However, your gross income is above \$150,000 a year. Therefore, technically your rental activity is "passive" and is subject to special restrictions in any year in which it generates a loss.

Or you may be an investor in a real-estate limited partnership that has produced tax losses for each of the five years since its inception. You have already become familiar with passive-activity loss limits on your tax returns.

Suddenly, a disaster such as a hurricane or an earthquake damages your rental property or a building owned by your limited partnership, leaving it uninhabitable. You had better become knowledgeable about tax laws governing the deduction of casualty losses.

Special rules apply to individuals' deductions of casualty losses involving personal-use property. Rental property, whether owned personally or via a partnership, is considered either trade or business property, or property held for the production of income, and is permitted more liberal tax treatment. In general, a disaster loss to rental property permits a deduction of the lower of the property's depreciated cost or the decrease in its fair market value caused by the disaster. To the extent the loss is reimbursed by insurance, your tax deduction will be offset. However, the activities described above not only are entered into for income-producing purposes but also are passive. Unfortunately, the Internal Revenue Code says



PHOTO ©CHUCK NACHE—PICTURE GROUP

**Suddenly, a disaster destroys a building owned by your limited partnership. You had better get to know the tax laws governing casualty-loss deductions.**

that if there is a "passive-activity loss" for any year, it is not deductible in the year but can be used only against current or future passive-activity income.

What, then, of the casualty loss? If you own property that was leveled by a hurricane last year, you will certainly have an economic loss this year for the first time (unless you had replacement-value insurance).

If the casualty is considered part of a "passive-activity loss," Congress' clear intention to provide tax relief for those suffering disasters would certainly be frustrated if the casualty loss could not be deducted under the passive-activity rules but could be claimed only in the

future when the property is sold.

Fortunately, the IRS has recognized the serious financial problems that too strict a reading of the law could cause. In recently issued amendments to the regulations, the IRS has held that these casualty losses will not be considered passive-activity deductions and therefore cannot generate a passive-activity loss. Thus, even though rental property is involved, and even though ownership of that property constitutes a passive activity to a taxpayer, the loss attributable solely to the casualty will fall outside the passive-activity rules and will be deductible under the regular loss provisions of tax law.

## TAKEOVERS

### Poison Pills

A common anticipatory defense adopted by companies considered potential takeover candidates is the issuance by the target of "poison-pill" rights. Shareholders may be asked to vote on a plan under which they are issued rights to purchase shares of preferred stock, but only in the event of a takeover attempt by another party. The preferred stock, if issued, carries voting, dividend, and liquidation privileges equivalent to those of the common shares.

The purpose of the rights offering is to put in the hands of presumably friendly shareholders the voting rights to defeat the ability of another party to

acquire the company, or to make it economically unfeasible to do so.

Under the laws of some states, adoption of such a plan is considered distribution of a dividend. There has been a great deal of interest in whether the IRS would hold adoption of such a plan to be either a dividend for tax purposes, an exchange of property, or any other kind of transaction that could require income recognition by the shareholders before the rights are actually exercised.

The IRS now has laid the question to rest. It issued a ruling that no tax event occurs on adoption of the plan, and no dividend or exchange will be taxed to shareholders until there is some future action under the adopted plan. **ND**



Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.



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# Franchising

*If franchising is the way you want your business to grow, you may want an experienced consultant.*

*By Meg Whittemore*

## A Consultant Who Has Gone The Distance

Your business is prospering, and now you're convinced that your product or service could be franchised. Making the transition from an independent to a franchised business isn't as easy as it may sound; the complexities usually require the help of a franchise consul-

stant. His doubts dissolved after visiting a Steak-Out and sampling its fare, such as a 9-ounce rib-eye steak with potato and salad, delivered, for about \$9.

From then on, Martin says, McGuire served as "overall counselor, adviser, and coordinator," and as liaison between the couple and the franchise attorney, writing business plans, and

identifying sources of capital. He also helped select an advertising agency and develop marketing tools for franchisees. Three years later, he remains on call in case problems arise.

The number of Steak-Out's franchises (start-up costs are \$82,300 to \$136,500) has grown slowly—by design. There are 17 locations in the South, and Martin says he'll expand



With help from consultant Kenneth McGuire, left, David Martin started franchising his firm.

only within that region—in keeping with McGuire's advice.

Martin, who considered several franchise consultants before choosing McGuire, says: "There are franchise-consultant companies out there whom I interviewed who seemed to be more interested in getting me to write them a check for \$60,000 on the spot. We realized the need for a franchise consultant who would stick with us, and we have held him [McGuire] long term."

Bob Kushell, a 30-year veteran of franchise consulting, says, "A good consultant will tell a potential franchisor whether or not the business concept can be franchised." Be wary, he advises, of "franchise consultants who will package any business idea and not take the time to stick with the client through the first few critical years."

Franchise consulting is best done by those with experience in franchising, says McGuire, who for several years set up ice-cream-parlor franchises. "In order to convey to franchisors what they should know," he says, "you need to have done it yourself."

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## Tips For Choosing The Right Expert

Franchising is a special type of business arrangement that newcomers may find daunting without some specialized help. "Franchising is a whole different world from what the businessperson is used to," says Les Rager, a franchise-development consultant and owner of Rager & Associates, in Roswell, Ga. "One of the most common misconceptions" about the field, he adds, "is that it is a quick road to riches." In fact, he says, it is a slow process that requires professional guidance from the start.

A franchise consultant should demonstrate firsthand knowledge of the field's complexities, anticipate its pitfalls and possibilities, and produce a thorough franchise program containing a step-by-step plan for implementation. In shopping for a franchise consultant, as in searching for any other business-management specialist, experience makes a difference. "There is no school for franchise consultants," Rager says. Nor is there any organization that regulates or certifies such consultants. The search for a qualified consultant, he says, rests solely with the businessperson. It is "vitally important" that you take the time to choose a consultant carefully, Rager maintains, "because if you don't have someone who knows what they're doing, it can cost you money."

Following are some suggestions to help you in that search:

- Ask trusted business associates to recommend franchise consultants. Since franchising is a legal-intensive way of doing business, franchise attorneys may be good sources of referrals.
- Interview several candidates. Ask for specific examples of their experience in franchising. Were they ever franchisors or franchisees themselves? What did they learn from the experience?
- Reduce your choices to two or three, and pay each consultant to write a report on why your business would or would not succeed as a franchise. "Most entrepreneurs don't like to do this," Rager says. "They want to tell the consultant that their business idea is going to work. These are the people who always fail."
- Find out if the consultant is "in it for the long haul," says Rager. Some

franchise consultants will put together a program that has training manuals, legal documents, marketing packages, and promotional materials, and then their involvement stops. "If a consultant wants to do a good job for a client, there must be involvement over a period of years, not months," says Rager. Be wary, he adds, of consultants who

want you to write a check at the start and who don't include implementation in their services.

- Question the franchise consultant about who will be responsible for the legal aspects of the franchise program. "A fran-

chise consultant can put together a franchise document," says Rager, "but if a consultant does legal work for someone, make sure he or she stands behind the work."

A better arrangement is for the franchise consultant to work with a recognized franchise attorney, he says.

- Examine the cost. Hiring a fran-

chise consultant should cost \$25,000 to \$50,000 from start to finish, says Rager. That includes operations manuals, marketing materials, brochures, legal fees, and accounting work. Rager recommends having an equal amount available to implement the program. "That's where lots of entrepreneurs go wrong," he says. "They scrape together enough to get the franchise package put together, but then they don't have any money left over to implement it."

Rager also says you should be cautious of anyone who offers to put together a complete franchise package for \$150,000 or more. "That's outrageous," he says.

- Avoid any franchise consultant "who says you can sell lots of franchises in the first couple of years," Rager says, and avoid a consultant who says you can fund the growth of your franchise with the start-up fees paid by franchisees. Such advice "is dead wrong," he says. "Your income comes from the monthly royalty stream."

● Keep in mind throughout your search for a consultant, Rager says, that you are on the right track when "you talk to someone who understands that franchising is a very slow process to success." ■

*If a consultant wants to do a good job, there must be involvement over a period of years.*

—Franchise consultant Les Rager

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# Free-Spirited Enterprise

By Janet Lowenstein



ILLUSTRATIONS: ANDREA WISNEWSKI

## NOT JUST FOR KIDS

If you don't think babies are big business, then you haven't been reading our mail. We've recently heard from some companies that have children on their minds.

**Miramar International Corp.**, of San Antonio, Texas, heralds the newborn. The company produces milk-chocolate birth announcements, called Baby Bars. The 2.25-ounce chocolate-and-almond candy bars are wrapped with pink or blue paper that shows a sleeping baby on the front. On the back is a fill-in-the-blank birth announcement.

**BJ Enterprises**, of Atlanta, is prepared to clean up after the kids. It's offering Kiddie Katch, a floor mat to go under children's chairs at mealtime.

The company says its portable, disposable mat will protect floors and carpets from children's dietary hits and misses. An eye-catching design is printed on the mat. Custom artwork is also available, if the children's splatters and splashes aren't decorative enough.

**Enterprise Publishing Co.** has older children in mind—those 9 to 19. Its new book, *Capitalism For Kids: Growing Up To Be Your Own Boss*, by Karl Hess, teaches children how to make money. Hess presents free-market economics in language children can understand, and he encourages

them to pursue entrepreneurial careers.

If this is evoking fond memories of your lemonade stand, think again. Did you pay for the raw materials (lemon, sugar, water, and ice), capital equipment (pitchers and cups), rent for the space under the stand, and electricity that goes toward the ice making? Hess writes, "For a venture into work or business to be important for you as a kid, it has to be a venture into the real world in every sense."

## OFF THE BEATEN PATH

Teed off when flight delays keep you waiting at airports?

If you're a golfer, now you can use the time to perfect your game—at Tee Off & Take Off. The indoor, computer-simulated golf course and driving range has opened at Denver's Stapleton International and at Greater Pittsburgh International airports.

You hit the ball off a computer-activated pad into a net about 10 feet away. Light sensors from the pad transfer the action to a TV monitor, which analyzes club-head speed, club-face angle, swing path, and other

aspects of your style. Duffers are welcome.

Speaking of exercise, Tony Husch & Linda Foust, au-



thors of *That's A Great Idea! The New Product Handbook* (10 Speed Press), suggest a nine-part exercise program for increasing creativity. The program is designed for people who want to come up with the next Pet Rock or Cabbage Patch doll. As the authors put it, they want to "saturate you with the latest cultural forces and consumer trends so you will be better able to see what is coming next." Among their ideas: Read the Yellow Pages; watch the top-10 prime-time TV shows, including the commercials; and read the first and last



paragraphs of the top-10 fiction and nonfiction best-selling books.

On the other hand, you could just read a good book.

Some serious thinkers in the Netherlands may not have read Husch and Foust or even Hess, but they're putting the books they've read to good use—making money.

The *New York Times* recently reported that Dutch philosophers have opened



private practices, like those of psychotherapists. The Dutch thinkers charge clients up to \$50 an hour to discuss anything they'd like. Most of the clients are people at emotional crossroads. The philosophers apply their discipline to help clients see their problems from a new perspective.

Why?

Philosopher Ad Hoogen-dijk says, "There's a new generation of philosophers who want to take part in society, not just work in an ivory tower." ■





COMMENTARY

# Where I Stand

*Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.*

## 1. Require Congress To Balance Budget?

Proposals for broad reform of the federal budget process include a constitutional amendment that would require Congress—except in national emergencies—to balance the federal budget. It also would make it harder for Congress to raise taxes. Proponents maintain that Congress has shown itself unable to curb spending under statutory re-

quirements that can be waived easily or ignored. Opponents contend the proposed amendment would intensify the practice of excluding spending for selected programs from the budget and would hamper government responsiveness to rapidly changing conditions. Do you favor a balanced-budget/tax-limitation amendment to the Constitution?

## 2. Give Labor Say In Pension Investments?

A bill introduced by Rep. Peter J. Visclosky, D-Ind., would require joint labor-management control of pension-investment boards. Visclosky says employees, who will be dependent on the return on the investments for income when they are retired, ought to have equal say with management on what those investments should be. Oppo-

nents counter that management bears responsibility under the law for meeting pension obligations and has the expertise to maximize returns. It follows, they say, that only managers should be empowered to direct pension investments. Should employers be required to share control of pension-investment boards with workers?

## 3. Restrict PAC Campaign Contributions?

Among the top priorities of Senate Majority Leader George Mitchell, D-Maine, is to alter the way congressional campaigns are financed. One proposal before the Senate would reduce to \$1,000 from \$5,000 the amount that a political-action committee (PAC) could contribute to an incumbent or a challenger. Proponents argue that restrict-

ing PAC contributions would reduce special-interest influence over Congress. Opponents point out that PACs are not "special interests" but are groups of individual citizens voluntarily pooling their funds in support of candidates who share their views on issues. Should PAC contributions be restricted further?

## Verdicts On March Poll

*Here is how readers responded to the questions in the March issue.*

	Yes	No	Undecided
Should Congress enact a uniform product-liability law?	68%	20%	12%
Should Congress' deficit-cutting action include repeal of the Davis-Bacon Act?	85%	9%	6%
Should laws on discrimination by employers be toughened?	14%	78%	8%



Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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## COMMENTARY

# Congressional Alert

## Restricting Benefit Policies

Businesses no longer could target employee benefit plans to various age groups if certain legislation now moving in Congress is enacted.

S. 1511 and H.R. 3200 would overturn the Supreme Court's decision in



PHOTO: POLJO, INC.

the Betts case; the court ruled that employee benefit programs are exempt from the Age Discrimination in Employment Act (ADEA). Such an exemption has let companies coordinate pension and severance plans according to age-based differentials to avoid costly duplication of benefits. For example, many firms facing a need to reduce their work force have typically offered early-retirement incentives, with eligibility based on an employee's age.

If no age restrictions were allowed, the expense of offering retirement incentives to all employees would be prohibitive, and employers would likely resort to layoffs.

The U.S. Chamber of Commerce believes enactment of S. 1511 and H.R. 3200 would cause benefit reductions for all workers and require costly plan changes.

Urge your representative and senators to oppose legislation that stops employers from coordinating employee benefit plans according to age-based differentials and imperils early-retirement incentives.

## Health-Care Reform

The Pepper Commission, a bipartisan commission on comprehensive health care, recently recommended adoption of a phased-in requirement that all employers with more than 100 employees provide comprehensive



PHOTO: ROBERT RATHKE-POLJO, INC.

health-care coverage or contribute to a public plan for all employees and their nonworking dependents. Firms with 100 or fewer employees also would be required to provide health benefits or contribute toward a public plan if incentives for coverage do not result in 80 percent of the previously uninsured employees in firms of that size receiving health insurance.

The U.S. Chamber of Commerce strongly opposes government-mandated coverage, which would impose enormous costs on businesses, especially small firms. Such costs could force employers to reduce either pay or other benefits or to resort to layoffs. A better approach would be to address factors that are increasing health-care costs, such as the medical-liability crisis, and to take steps that make it easier for small businesses to offer health insurance.

Contact your representative and senators. Urge support for legislation that retains and improves the present public-private health-care system, and urge opposition to government-mandated coverage.

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Social Security Tax Debate

On Jan. 1, 1990, the Social Security payroll tax rate rose to 7.65 percent for employers and employees, its highest level ever. Revenue from the tax far exceeds what is needed to pay benefits to current retirees. Several



ILLUSTRATION: RODNEY LITTLE

measures in Congress seek to cut the payroll tax rate and put Social Security back on a pay-as-you-go basis.

Such a high tax rate has a negative impact on labor-intensive businesses, hurting their ability to compete and providing a disincentive for employment by increasing the cost of hiring. Also, excess payroll-tax revenues are invested in Treasury bonds, redeemable later. The cash to buy the bonds is used to finance current federal spending and offset much of the federal deficit.

A return to the pay-as-you-go system would expose a larger budget deficit, which could be expected to bring pressure for increases in other taxes. The U.S. Chamber of Commerce opposes such increases and believes that the best approach is to offset a payroll tax rate reduction through matching reductions in federal spending.

Contact your representative and senators. Urge support for a reduction in Social Security payroll taxes without increases in other taxes or in the budget deficit. **18**



# Editorial

## The End Of The Age Of Entitlement

We were visiting not long ago with a small manufacturer, and he was talking about the problems he'd had with one of his suppliers. He had received a big order for his product—widgets, let's say—and, to fill it, he had placed a big order himself with the supplier of a critical component.

Because he was a small company, he'd had to pay his supplier in advance. "I said to them [the supplier], 'I've got a cancellation date; I need it by this date.' The date comes and goes—nothing. I call them—'Oh, yeah, it's in shipping.' Another week goes by, and I'm out of my mind." When his order finally showed up, it was grossly defective—and the supplier refused to take it back. The manufacturer was, as a result, both late and short in filling his big order.

All of us, as consumers or as business people, have encountered the attitude our friend described. We might call it laziness, or rudeness, or sloppiness, but the root of the trouble is most often a sense of entitlement: Those infuriating people on the other side of the counter or the other end of the phone line believe that they're entitled to our business—our money—no matter how little they provide for it in return.

One of the less-appreciated blessings of the '80s was a noticeable decline in that sense of entitlement. This is what free markets will do: The business that takes its customers for granted usually winds up without any customers. (Our friend the manufacturer gave up on his supplier and started buying in the Far East; we don't know what has happened to his old supplier, but if that company is still around, we wouldn't recommend buying its stock.)

It may seem that your friends grouse more than ever about poor service, but here, as so often, public perception lags reality.

In many areas—retailing is a striking example—the state of the art in customer service has advanced light-years under the pressure of competition.

Likewise, many people still talk as if airline deregulation were a proven failure, but a recent Department of Transportation study found that the evidence points the other way: Competition has meant better service for more



PHOTO: © CHRISTOPHER MORRIS-BLACK STAR

*At McDonald's near the Kremlin, business has been double what was expected. It wasn't just the food that the Russians found riveting; it was a level of service they had never experienced.*

people, at lower prices, than ever before.

The study found that the frequency of flights to 382 small communities had increased 44 percent since deregulation, and that some cities, like Memphis and Dayton, were enjoying 10 to 20 times as many flights. Inflation-adjusted fares had fallen 26 percent since 1981.

Some complaints continue, true, about congestion, flight delays, and interrupted travel plans.

But the remedy, if one is needed, is not government intervention. Government is the problem: It has collected billions from airline passengers to upgrade air-travel facilities but has diverted the money to other uses. If the

federal government spent those funds for the intended purpose, airports could be expanded, more airlines could schedule more flights, and prices could reflect even more vigorous competition.

Government is, of course, where the sense of entitlement thrives; that surly bureaucrat knows that no matter how dissatisfied you are with the service, you can't take your trade to the government down the street. But it seems likely, as free markets thrive, that the temptation to turn to government as a cure for the supposed ills of "unbridled competition" will diminish. The contrast between responsive private enterprise and unresponsive government will simply be too obvious.

Think about what has happened in Moscow since McDonald's opened a store a short walk from the Kremlin. McDonald's expected that the store, the chain's largest in the world, would serve perhaps 15,000 Muscovites a day; it has instead been serving twice that many. From all accounts, it isn't just the quality of the french fries that thousands of Russians have found so riveting. It is instead what goes on behind the counter: Young Russians, trained by McDonald's, smiling and trying hard to give the customers a level of service they have never experienced before.

In a country where the sense of entitlement has thrived as no place else on earth—where the economy has ground to a halt because no one has felt any need to provide genuine service—nothing could be more revolutionary than caring about whether the customer is satisfied. ■



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